REPORT DOCUMENTATION PAGE

Form Approved OPM No. 0704-0188

1. REPORT DATE: Dec 2001

2. REPORT TYPE: Final

3. DATES COVERED: N/A

4. TITLE: Private-Sector Benefit Offerings in the Competition for High-Skill Recruits

5a. CONTRACT NUMBER: N00014-00-0700

5c. PROGRAM ELEMENT NUMBER: 65154N

5d. PROJECT NUMBER: R0148

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7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES):

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4825 Mark Center Drive
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8. PERFORMING ORGANIZATION REPORT NO.:

CRM D0003563.A2

9. SPONSORING AGENCY NAME(S) AND ADDRESS(ES):

DASD, Military Personnel Policy
4000 Defense Pentagon
Washington, DC 20301-4000

10. SPONSOR ACRONYM(S): N/A

11. SPONSOR REPORT NO.: N/A

12. DISTRIBUTION AVAILABILITY STATEMENT: Unlimited

13. SUPPLEMENTARY NOTES: N/A

14. ABSTRACT: Over the past several years, the military has faced mounting recruiting, reenlistment, and manning difficulties. One perceived reason for these difficulties is increased competition for skilled personnel from the private sector, particularly through its incentive pay and benefit offerings. Although the recent softening of the economy may help to ease some of these competitive pressures, other less cyclical trends—such as a smaller high-school graduate recruiting pool and lower propensity to enlist in the military—persist. These trends suggest that a careful survey of the private-sector incentive pay and benefits landscape is needed. In this paper, we compare and contrast the incentive pay and benefit offerings of large, private-sector firms to those of the military. In doing so, we assess whether these offerings differ significantly in their provision, scope, or structure. We also consider whether these offerings have played a role in the military's recent recruiting, reenlistment, and manning difficulties. Finally, we describe the offerings of several private-sector companies that are likely to compete with the military for skilled personnel. We find significant differences in military and private-sector incentive pay and benefit provision of incentive-based pay, health care and retirement benefits, education and training services, child care, workforce flexibility measures, and Morale, Welfare, and Recreation (MWR)/other quality-of-life programs. In most cases, military benefits are broader in scope, differ in structure, and involve less choice than those offered by the private sector. Taken together, these trends suggest several recommendations that could help the military in its recruiting, retention, and manning efforts.

15. SUBJECT TERMS: Benefits, civilian personnel, commerce, compensation, competition, education, health insurance, incentive contracts, labor market, Lucent Technologies, military personnel, Newport News Shipbuilding, personnel retention, quality of life (QOL), recruiting, retirement, salaries, skills, United Parcel Service (UPS)

16. SECURITY CLASSIFICATION:

a. REPORT: Unclassified
b. ABSTRACT: Unclassified
c. THIS PAGE: Unclassified

17. LIMITATION OF ABSTRACT: SAR

18. NUMBER OF PAGES: 152

19. NAME/PHONE OF RESPONSIBLE PERSON:

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Standard Form 298 (Rev. 8-98)Prescribed by ANSI Std. Z39.18

CRM D0003563.A2 / Final
December 2001

Private-Sector Benefit Offerings in the Competition for High-Skill Recruits

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Contents

Summary

Over the past several years, the military has faced mounting recruiting, reenlistment, and manning difficulties. One perceived reason for these difficulties is increased competition for skilled personnel from the private sector, particularly through its incentive pay and benefit offerings. Although the recent softening of the economy may help to ease some of these competitive pressures, other less cyclical trends—such as a smaller high-school graduate recruiting pool and lower propensity to enlist in the military—persist. These trends suggest that a careful survey of the private-sector incentive pay and benefits landscape is needed.

In what follows, we compare and contrast the incentive pay and benefit offerings of large, private-sector firms to those of the military. In doing so, we assess whether these offerings differ significantly in their provision, scope, or structure. We also consider whether these offerings have played a role in the military's recent recruiting, reenlistment, and manning difficulties. Finally, we describe the offerings of several private-sector companies that are likely to compete with the military for skilled personnel.

We find significant differences in military and private-sector incentive pay and benefit provision of incentive-based pay, health care and retirement benefits, education and training services, child care, workforce flexibility measures, and Morale, Welfare, and Recreation (MWR)/other quality-of-life programs. In most cases, military benefits are broader in scope, differ in structure, and involve less choice than those offered by the private sector.

Taken together, these trends suggest several recommendations that could help the military in its recruiting, retention, and manning efforts. These include:

- Introducing cash and choice into compensation

- Introducing some form of incentive-based pay
- Providing assignment and work schedule flexibility
- Increasing the "costs" of separation from the military
- Publicizing benefits and improving information access.

Policy-makers should carefully consider these recommendations because they have the potential to improve the military's standing relative to the private sector, while contributing to the continued development of a strong and capable future force.

Introduction

Over the course of the recent economic expansion, the U.S. military began to face significant obstacles to the recruitment of able personnel. Falling unemployment—which reached a 30-year low at the height of the expansion—created new private-sector employment opportunities, even for those lacking college degrees. Although the recent softening of this strong economic environment may begin to limit the extent of these outside opportunities, other less cyclical trends persist. High school graduates—who traditionally constituted the overwhelming majority of the military's enlisted manpower—are increasingly pursuing the substantial payoffs associated with postsecondary education. College attendance has risen to an all-time high. Many high school graduates who in the past would have joined the workforce or the military now are enrolling in vocational schools or community colleges. Increased college attendance has not improved officer recruiting and retention, perhaps because propensity to join the military hovers near a record low. In fact, total applications to the service academies have fallen by 34 percent since 1992 [1].[1]

Military faces recruiting shortfalls

These trends have put increased pressure on military recruiting. The armed services must recruit more than 200,000 officers and enlisted members for active service annually—a goal that has become increasingly difficult to achieve. The Navy experienced an enlisted recruiting shortfall of almost 7,000 Sailors in FY98, and the Army and the Air Force missed recruiting targets by 6,300 and 1,700, respectively, in FY99 [2] (see table 1). The forces have since recovered to meet their FY00 accession goals, but the number of future recruits—as measured by participation in the Delayed Entry Program (DEP)—still falls significantly below target levels [3]. Recruitment has been particularly

1. Unpublished Navy Recruiting Command data.

difficult in several of the military's more technical occupational fields. For example, the Navy has experienced manning shortfalls in its ET, FC, and AT ratings [4]. There have also been accession shortfalls in some officer classifications. For example, the Navy was not able to meet its FY99 goals for naval submarine, pilot, and flight officers.[2]

Table 1. Services' experience with recruiting difficulties[a]

Service	Percentage of annual goal for recruiting new active-duty enlistees: FY98	FY99
Army	99	92
Navy	88	100
Air Force	105	95
Marines	100	100

a. Source: Department of Defense data as cited in [5].

Finding quality recruits has also become increasingly costly. On the enlisted side, costs per new recruit have risen in all the services over the last several years. For example, Navy recruiting costs have almost doubled since FY93.[3] Costs per recruit averaged $9,677 in FY99 across all the services: the Army spent more than $11,000 per new soldier, the Navy spent $8,835 per Sailor, the Air Force spent $5,403 per Airman, and the Marines spent $6,006 per Marine [6].

These escalating recruiting costs have not contributed to the development of a higher quality force. In fact, the share of enlisted recruits with above-average entrance test scores across all services has fallen by over 8 percent since 1994 [2]. Furthermore, average recruit quality has declined as accession caps have been increased. For example, the

2. "NHRBOD Metrics Master Package," prepared by the Naval Human Resource Board of Directors, 2000.

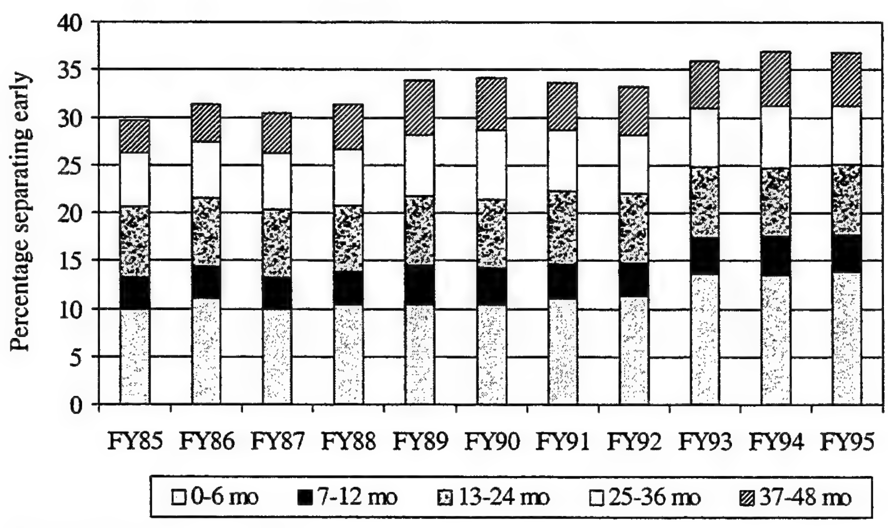
3. Unpublished Navy Recruiting Command data.

Navy raised its cap on dropout accessions from 5 to 10 percent in FY99 and an Office of the Secretary of Defense (OSD) experiment also in that year allowed home-schoolers to count as tier I rather than tier II accessions.

Military also faces falling retention and increasing attrition

Compounding the military's recruitment difficulties are flagging retention rates. Although the concerted military drawdown ended in 1995, first-term reenlistment rates across all services since have fallen by 13 percent [2]. In FY99, both the Navy and Air Force fell short of their first-term reenlistment goals. Increased attrition has contributed to lower retention rates across the services.[4] Over a third of recruits leave the military before completion of their first term and, as figure 1 shows, the trend over time has been toward a greater share of enlistees leaving during the first 6 months of their first term.

Figure 1. Increasing first-term enlisted attrition[a]



a. Source: Tabulations of Defense Manpower Data Center data as cited in [5].

4. Attrition's effect on retention rates will change shortly when the military revises its retention definition.

Early separations can be very costly, resulting in average replacement costs of more than $35,000 per recruit [7]. As Navy Vice Admiral N. R. Ryan, Jr., noted before a Senate subcommittee last year [8]:

> Today's recruiting and retention atmosphere can be best described as a war...a sustained engagement to recruit and retain the very best men and women this nation has to offer.

The U.S. military is not alone in its struggle to attract and retain skilled personnel. One survey found that 65 percent of private-sector human resource (HR) executives listed recruitment, selection, and placement among their top three priorities in 2000, up from 55 percent in 1998 [9]. Another survey reported that 72 percent of HR professionals were concerned about recruitment and retention. Over 70 percent have trouble attracting and retaining IT workers, and 30 percent report recruitment and retention difficulties in the engineering field [10]. Although softening economic conditions may help ease these shortages in the future, they are unlikely to completely alleviate them, particularly in the case of an economic upswing.

There is some evidence that private-sector companies are recruiting former military personnel more actively than ever before. A number of recruiting companies with web presence are targeting former military members (see table 2). Several target junior military officers—a group that the services are trying hard to retain. Many of these sites have online resume posting, the ability to search national job databases, or readily available "success" story postings. Anecdotally, interviewed Navy detailers recount instances of government contracting company representatives recruiting Sailors while doing onboard maintenance.

Private-sector responses to tightening labor markets

In response to such staunch competition, many large companies are initiating or bolstering pay and benefit programs in an effort to better compete (table 3). The most popular way to compete is to increase base salaries—a strategy recently reported by over 60 percent of surveyed companies.[5] Because this issue is analyzed in great detail in other portions of this report, we do not examine it here [11].

5. Obviously, a sustained downturn in the economy could potentially reverse this trend.

Table 2. Private sector actively recruits military members

Recruiting company and website	Target
Military Recruiting Institute http://www.jrofficer.com	Junior officers
Cameron Brooks, Inc. http://www.cameron-brooks.com	Junior officers
Midwest Military http://midwestmilitary.com	Junior officers, enlisted, and academy grads
Leaders, Inc. http://www.leadersinc.com	Junior officers, enlisted, and academy grads
Military Transition Group, Inc. http://www.careercommandpost.com	Junior officers, enlisted, and academy grads
Bradley-Morris, Inc. http://www.bradley-morris.com	Junior officers, enlisted, and academy grads

Table 3. Private-sector responses to tightening labor markets[a]

Recent action taken	Percentage of surveyed companies implementing/ revising their programs[b]
Market adjustment/base salary increase	62.3
Sign-on/hiring bonus	59.6
Changes to the work environment	47.8
Retention/stay-on bonus	28.2
Promotional/career development opportunities	27.1
Paying above market	23.7
Special training/educational opportunities	22.0
Spot bonus	21.7
Stock programs	19.1
Project milestone/completion bonus	15.2
Separate salary structures	14.8
Special cash bonus (by group)	14.3

a. Source [10].
b. Note: Respondents could choose multiple responses.

Many companies are also changing their incentive pay or benefit programs in response to tightening labor markets. Incentive pay program changes, such as the introduction or increase of hiring or retention bonuses, or changes to benefit programs, such as improvements in the work environment or promotion/career opportunities,

are particularly popular. Private-sector companies are initiating changes in benefit programs because nearly 80 percent of surveyed workers say that benefits are very important in their decision to accept or reject a job [12].

In fact, some observers have suggested that the military's recruitment and retention woes stem from its inability to compete, particularly in critical technical fields, with the incentive pay and benefit offerings of private-sector companies. The goal of this study is to evaluate incentive pay and benefit offerings in the private sector and compare these offerings with those available in the military. We will first examine private-sector incentive pay and benefit programs that would relate to all personnel, both officer and enlisted. We will then focus our attention on the incentive pay and benefit offerings of several specific private-sector companies that attract former military members. Emphasis will be on incentive pay and benefit offerings to technical workers—a group in which the military is experiencing severe manning shortfalls.

Do pay and benefits matter?

A key assumption in this analysis is that personnel leave the military, at least in part, because of the attractiveness of compensation packages in the private sector. If this is indeed the case, changes in military pay and benefits could do much to boost recruitment and retention and to stem attrition. If, however, exits are the result of perceived shortcomings in the quality of military life, effective solutions to the problem could be very different. For example, although Sailors can be paid a premium to accept food of poor quality, it may be more cost-effective to improve the quality.

Unfortunately, information on personnel separating from the military is limited. Exit surveys have historically had low response rates, and data on personnel's reasons for separation have been inconclusive.[6] There is, however, some evidence that the private sector is an important factor. A 1999 Air Force survey found that pilots cited the availability of comparable civilian jobs as the top reason they might leave

6. For example, see [13] for a description of Navy surveys that have been administered to date and their shortcomings.

the service [14]. In addition, CNA research finds that attrition rates are higher among Navy recruits from states with relatively low unemployment rates than for those from states with relatively higher unemployment rates [15], and Navy Vice Admiral Patricia Tracey recently called competition from the private sector "a major factor in retention" [16]. Indeed, the declining importance of traditional combat-oriented military positions and the increasing importance of new technology-oriented positions has opened military labor markets to private-sector competition—a trend that is expected to accelerate in the future [17]. Using data from a recent survey combined with information from detailer interviews, we will try to shed light on this issue.

Methodology and data sources

Despite its many unique qualities, the U.S. military can be thought of on some levels as another large employer—subject to the same labor market constraints facing large private-sector companies. For example, the Navy's enlisted ranks roughly approximate the size of IBM's global workforce.[7] Viewed in this context, it is important for the U.S. military to be familiar with the incentive pay and benefit offerings of large, private-sector companies. Compiling information from several available surveys of large, private-sector companies, we review the current scope of corporate incentive pay and benefit programs and compare these offerings with those available to military personnel.

To this end, we first review information available from several recent surveys examining the incentive pay and benefit offerings of large, private-sector firms.[8] We choose this approach over an analysis of

7. As of September 1999, the Navy had 315,995 enlisted Sailors, compared to 307,401 global IBM employees.

8. The majority of the analysis that follows was completed in December 2000. Many of the data were purchased from commercial vendors, so we do not attempt to update them here. However, it is unlikely that corporate benefit offerings have changed significantly—even in light of the recent economic downturn—because companies are more likely to reduce the scope of pay and benefit increases than to cut benefit levels. One compensation element that is likely to have been affected by changing economic conditions, however, is variable pay.

"best practices" or an examination of government data on employees' access to various benefits for several reasons.

Best practices can be problematic in several respects. First, the term has lost its meaning over time, and now often refers to any seemingly good thing that any firm or organization does. In fact, practices that are perceived to be "innovative" or "cutting-edge" can be ineffective or overly costly, or can introduce unintended incentives. For example, there is some evidence that the provision of generous paid leave can increase absenteeism [18]. Also, best practices are often perceived as offering "magic bullet" solutions to complex problems. In fact, the feasibility of offering a particular benefit program can be highly dependent on conditions that are unique to the individual firm.

These limitations do not imply, however, that best practices cannot be useful in an analysis of private-sector incentive pay and benefit offerings. However, the practices are best analyzed after identifying areas of interest and concerns about their current operation or structure. Furthermore, best practice information is most useful when coupled with information regarding program effectiveness.

Government data available from the Employee Benefits Survey and other sample surveys offer another possible research approach. But large, private-sector survey data have an advantage over government data on employees' access to various benefits because government data do not provide information on large company behavior and provide only limited qualitative information about benefit offerings.

By examining survey information on the prevalence of various benefit programs in large, private-sector firms, we are able to infer their effectiveness; a more widely adopted benefit program is likely to be one that is cost-effective and has the intended effect on worker behavior. Driven by the profit motive, private-sector firms are quick to emulate successful strategies and to abandon ineffective ones. The data also allow us to compare the availability of various civilian and military benefits and highlight areas where they differ.

The surveys primarily used in the analysis are as follows:

- Buck Consultants, *2000/2001 Compensation Budget and Planning Survey* [19]—responses of representatives from 305 Fortune 1000 companies.

- HayGroup, *2000 Hay Benefits Report* [20]—responses of representatives from 1,008 medium and large employers.

- Hewitt Associates LLC, *The Hewitt Work/Life Survey* [21]—responses of representatives from 1,020 "major" corporations, including 85 percent of the Fortune 100 and 57 percent of the Fortune 500.

- Society for Human Resource Management (SHRM), *2000 Benefits Survey* [22]—606 responses of representatives from member companies, results are tabulated for firms of 2,500 or more employees.

- Watson Wyatt Worldwide, *ECS Survey Report on Employee Benefits 2000/2001* [23]—650 responses of representatives from companies of all sizes, results are tabulated for private-sector firms with 2,500 or more employees.

These surveys were chosen because they were conducted by nationally recognized consulting and research firms and can be interpreted as broadly representative of the pay and benefit offerings of large, private-sector firms. In some cases, data from these surveys have been supplemented with information from other available private-sector employer surveys.

These surveys, however, are not without their own shortcomings. Most reported surveys are not based on representative samples, meaning they may be subject to some statistical bias. In a few cases, data from different surveys conflict, which may result from differences in sample selection, question forms, or definitions. For this reason, we present results from several different surveys to obtain a range of estimates.

Caveats

Differences in the provision or structure of military and civilian incentive pay and benefit programs do not necessarily mean that

changes are necessary. The military differs fundamentally from the private sector in several ways, including its unique organizational goals of maintaining equity in pay and providing subsistence. As such, some of the compensation strategies and programs adopted by the private sector may not be transferable to the military, and vice versa. But if differences exist, it is important to recognize why they exist and whether they should persist. Thus, the feasibility of alternative compensation approaches must be assessed carefully. Research findings can provide the basis for further analysis and, by highlighting differences between military and civilian benefits, could also be used to design more effective recruiting materials.

It should also be noted that information on the actual receipt of benefits, particularly among military personnel, is not the focus of this analysis. Future research should examine this important issue, as the offering of a program or benefit does not necessarily mean that it is readily available to all. For example, although the military offers some sabbatical-like leave, its receipt is relatively rare.

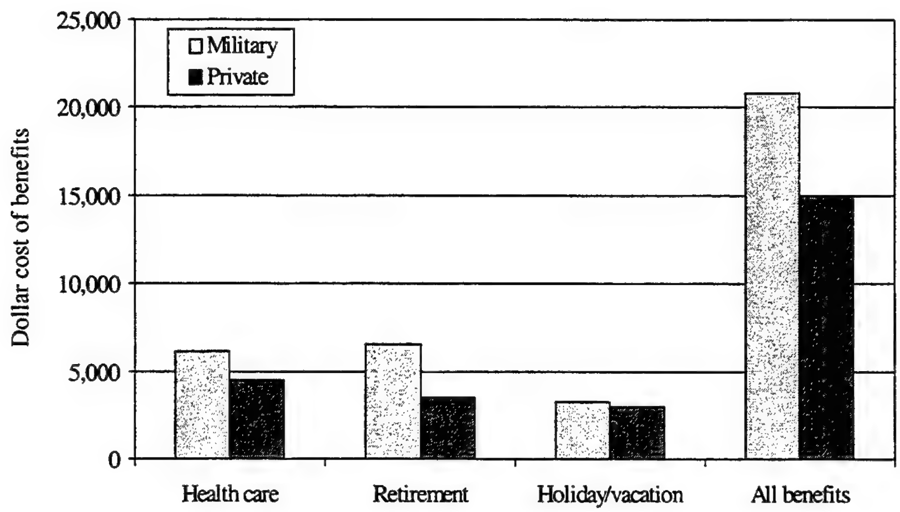
It is naïve to deduce from what follows that the solution to the military's recruiting and retention woes lies in the introduction of a host of new benefit programs or rapid expansion of existing programs. In fact, recent CNA research finds that the military spends more than the private sector on benefits today—particularly in the areas of retirement and health care [24] (figure 2). Rather, the analysis may spur a reexamination of military benefits and how changes in the provision or the mix of benefit and incentive pay programs could make military service more attractive.

Examination of several large, private-sector companies

After comparing the provision of various incentive pay and benefit programs in both the private sector and the military, we turn our attention to an analysis of several companies that employ workers with skills similar to those needed by the military in critical technical ratings. Using selected enlisted Navy occupations as a test case from which to extrapolate results for the entire military, we combine information derived from a crosswalk between Navy and civilian occupations first developed in [4] with new information obtained from a

survey and a series of Navy personnel interviews to identify large, private-sector companies that compete directly with the Navy for people with critical technical skills. We then compare the characteristics of these companies' incentive pay and benefit programs to the characteristics of those available in the Navy. Although strict comparability will be difficult, this analysis will shed some light on the choices facing potential military recruits. The final step of the analysis is to draw conclusions and make recommendations for future military employment policy.

Figure 2. Military spends more, but mix may matter[a]

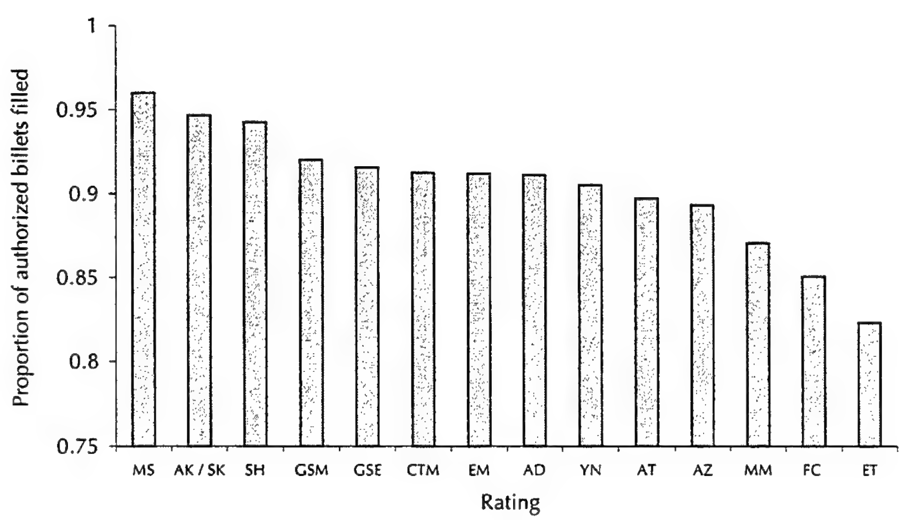


a. Source: [24].

Survey evidence on the private sector's role in recruiting and retention shortfalls

In today's competitive labor market environment, the military is experiencing severe manning shortfalls in some officer and enlisted communities. Using data on the proportion of authorized billets filled for paygrades E-4 through E-6 as a measure of manning shortfalls, [4] identified shortfalls in several technically oriented Navy enlisted ratings in FY98 (figure 3). Although this shows a strong negative correlation between manning levels and earnings in comparable civilian occupations, the role of the private sector in falling military recruitment and retention is not completely understood.

Figure 3. Enlisted accession shortfalls in technical Navy ratings (manning levels of E4–E6 billets[a]



a. Source: [4].

To better understand this relationship, CNA conducted an informal survey on the role of private-sector opportunities in both fleet attrition and reenlistment decisions (see the appendix). In addition, we spoke with detailers in several technically oriented enlisted Navy ratings about the role of the private sector in reenlistment decisions.

Survey data suggest that private-sector job opportunities do play a role in both the fleet attrition and reenlistment decisions of Sailors (see table 4). Almost 65 percent of survey respondents agreed or strongly agreed that private-sector opportunities played a significant role in a Sailor's decision to leave the Navy at the end of his/her contract, also known as the Expiration of Active Obligated Service (EAOS).[9] Almost half (48 percent) of respondents agreed or strongly agreed that private-sector opportunities were the primary reason for the Sailor's failure to reenlist at EAOS.

Table 4. Role of the private sector in separation decisions

	Percentage	
Extent of role	Agree	Strongly agree
A significant role		
EAOS losses	24	41
Attrites	26	31
The primary reason		
EAOS losses	29	19
Attrites	31	5

These sentiments were echoed in detailer interviews. Although virtually all interviewed detailers agreed that private-sector opportunities played a role in Sailors' decisions to leave the Navy at EAOS, fewer agreed that the private sector was the primary reason for losses.[10]

9. The survey asked respondents to recall a Sailor who had recently left the Navy at EAOS.

10. The fact that virtually all detailers agreed that private-sector opportunities played a role in Sailors' decisions to leave at EAOS may reflect the fact that only detailers in technical ratings were interviewed. Detailers had little information regarding Navy attrites.

Not surprisingly, the private sector seemed less important—but still significant—in Sailors' fleet attrition decisions. The survey found that 57 percent of respondents agreed or strongly agreed that private-sector opportunities played a role in a Sailor's decision to attrite, whereas over one-third (36 percent) said that they agreed or strongly agreed that such opportunities were the *primary* reason for the Sailor's decision to attrite from the Navy.[11]

Information on EAOS losses' private-sector opportunities was observable in data on the timing of a Sailor's post-service employment offer. Forty-three percent of respondents said that the Sailor leaving at EAOS had a job before leaving the Navy. Similarly, of those reporting that the Sailor had not obtained a job before separation, 60 percent of EAOS losses obtained a job after separation.

Survey respondents were also asked to provide information regarding the Navy rating of the described EAOS loss or attrite. Using information regarding technical and nontechnical ratings, responses were grouped into these two categories.[12] For all EAOS losses and attrites, 60 percent of EAOS losses were Sailors in technical ratings, compared with 69 percent of attrites.

The survey also asked respondents to report whether Sailors got jobs before or after separation. This information, combined with information on the rating of the separating Sailor, was used to assess whether Sailors in technical ratings were more likely than Sailors in other ratings to obtain a job before separation. Although sample sizes are small, the share of technically rated Sailors who obtained jobs before separation was about the same as or greater than their representation in the sample populations. Technically rated Sailors were also more

11. Although Navy attrites are technically separated from the Navy for a variety of medical and misconduct circumstances (termed "loss codes"), anecdotal and focus group evidence suggests that some may exaggerate circumstances to avoid completion of their periods of obligated service.

12. Sailors who were not rated when they left the Navy were omitted from the analysis. Technical and nontechnical groupings were determined based on CNA analysis of data relating to the length of the requisite training pipeline.

likely than their nontechnically rated counterparts to obtain a job after separation .

Respondents were also asked to indicate the occupation subsequently entered by the EAOS loss. Almost half (47 percent) of EAOS losses subsequently entered a technical occupation.[13]

Finally, the survey asked respondents to identify a separating Sailor's top three reasons for leaving the Navy. Not surprisingly, pay was the most often cited reason for those separating at EAOS.[14] Perhaps indicative of societal changes and the importance of work and family, location/schedule of work was the second most often cited reason for EAOS losses and the most often cited reason for attrites. This reason was also often mentioned in our discussions with Navy detailers. Working conditions was the third most often cited reason for both loss groups. Respondents cited other reasons, including benefits, training/educational opportunities, compatibility with spouse's career/job, and job security, less often. The top "other" reason cited by respondents was family separation.

Although pay seemed to be an important factor in servicemembers' decisions to seek private-sector employment, benefits figured less prominently into their decisions. Benefits ranked low as a reason for seeking private-sector employment among both described EAOS losses and attrites. Keep in mind, however, that many cited reasons—such as location/schedule of work, training/educational opportunities, and compatibility with a spouse's career—can be influenced or improved on by offered incentive pay and benefit programs. Thus, while benefits may not be explicitly cited as the reason that servicemembers choose to pursue private-sector opportunities, they may be useful in easing the hardship of other cited reasons.

13. "Technical" in this context refers to those entering the "technical" or the "mechanics, installers, and repairers" occupational categories.

14. This was the second most often cited reason among respondents describing attrites.

A comparison of civilian and military compensation

Structural differences

Before comparing various components of civilian and military compensation packages, it is first important to recognize the inherent structural differences between civilian and military compensation. Compensation in the private sector is composed of several elements, including base pay, incentive-based variable pays (e.g., bonuses, profit sharing, gainsharing, and equity-based compensation), privately provided benefits (e.g., health insurance, paid leave, retirement, life insurance, accidental death and disability insurance, educational programs, and work/life programs), and publicly mandated benefits[15] (e.g., social security, unemployment compensation, and workers' compensation). Except for a few notable exceptions,[16] pay and benefit offerings are determined at the discretion of the firm's management. Market wage information, coupled with internal job evaluation systems, helps to determine pay and benefit offerings. The benefit share of civilian compensation has been growing over time, and now accounts for over one-quarter of total employer compensation costs [25].

The resulting mix of pay and benefits can vary considerably across private-sector firms competing in the same market because of variation in their organization goals or their individual workforce needs. For example, one firm may choose to offer above-market wages to cultivate a skilled workforce capable of producing high-quality products; another may choose to pay low wages to develop a workforce able to

15. Because publicly mandated benefits are available across all covered companies, they will be omitted from the analysis that follows.

16. For example, the government mandates certain employee benefits, minimum wage levels, and work conditions.

produce lower-quality products more cheaply. Firms can also use the pay/benefit mix to cultivate a particular type of workforce. For example, a firm that has difficulty keeping young, entry-level workers may choose to offer a compensation package that is more heavily weighted toward wages and salaries, whereas a firm trying to retain older, more experienced workers might offer a larger share of compensation in benefits preferred by older workers.

The structure of military compensation, while similar to that of civilian compensation in some respects, also has several distinct differences. Basic pay, which is determined by rank and length of service, is the largest component of military pay. Congress sets separate pay tables for officers, warrant officers, and enlisted Sailors. Basic allowances for housing and subsistence make up the second largest component of military pay. These allowances, which are not subject to federal taxes, vary depending on rank, length of service, marital status, and location. Retirement pay is the third component of military pay.[17] This pay, which is available only after 20 years of service, provides a retiree with a substantial share of his or her previous basic pay upon retirement—regardless of age. A variety of special and incentive pays, including accession and continuation pays, duty and condition-based pays, uniform allowances, cost-of-living allowances, and moving cost reimbursements, constitute the final component of military pay. These special pays make up an estimated 14 percent of total military pay. About half of this portion—7 percent of military pay—is in discretionary categories and the amount of discretion allowed is fairly limited [26]. Allowances, retirement pay, and special and incentive pays are set through the budgetary process and must receive congressional approval. However, the services have some discretion in the determination of certain types of military pay. For example, law sets restrictions on Selective Reenlistment Bonuses, but the individual services can determine bonus amounts within these parameters.

Military benefits, which include health care, child-care programs, annual leave, voluntary education and training programs, commissaries, and recreation programs, are set at the same level for all servicemembers and do not significantly vary with tenure.

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17. This refers to the annuity payment that is paid upon retirement.

Although much research to date compares pay in the civilian sector to regular military compensation (base pay plus allowances) in the military, benefits are usually omitted from the analysis [11]. This stems in part from the inherent difficulty of comparing civilian and military benefit packages. Despite these difficulties, it is important to assess the prevalence of various types of private-sector incentive pay and benefit offerings and compare these offerings with those available to military personnel. Viewed as a competitor in the market for skilled labor, the military can then draw inferences based on this information as to the extent to which differences in military and civilian benefit packages may be influencing recruiting and retention rates—particularly in ratings with severe manning shortfalls.

Differences in civilian and military pay and benefit offerings

It is generally recognized that differences in civilian and military pay, benefits, management structures, and work/life offerings exist and may be a factor in individuals' decisions to enlist or reenlist in the military. Despite this supposition, little effort has been made to compare the offerings of large, private-sector companies with those of the military. In what follows, the various elements of civilian and military compensation offerings will be examined in turn.

Pay

Empirical comparisons of military and civilian pay described elsewhere in this report show that, although Regular Military Compensation (RMC) for enlisted personnel compares favorably with the earnings of civilian high school graduates, the earnings of enlisted personnel with some college tend to fall short of their civilian counterparts' earnings [11].[18] One possible explanation for this discrepancy is that it results partly from the availability of more generous benefits in the military sector—a proposition that we will examine in more detail. But differences in the *composition* of military and civilian pay are often overlooked. In the civilian sector, variable pay has become increasingly popular in recent years.

18. RMC is defined as basic pay, federal tax advantage, and allowances for housing and subsistence.

Private-sector variable pay

Variable pay in the private sector can include a variety of different programs, such as bonus and award programs, equity participation programs, gainsharing plans, and team-based incentives. Over time, the use of variable pay has been rising. A recent survey by Hewitt Associates LLC found that 78 percent of surveyed companies have at least one type of variable pay in place for salaried, exempt employees, up from 47 percent in 1990 [27].[19] WorldatWork finds that 61 percent of all companies offer some form of variable pay, and a Mercer survey reports that 56 percent of all companies have incentive pay plans below the managerial level [27, 28]. Evidence suggests that variable pay may be more prevalent among large companies. A 1999 Federal Reserve Bank survey found that 96.7 percent of companies with more than 1,000 employees offer some type of variable pay [29].

Most variable pay programs in the private sector are based on incentives. They put a portion of employees' compensation "at risk," allowing companies to attempt to link performance and pay at the individual, team, or organization-wide level. When effectively designed, incentive-based pay can motivate employees to work to the best of their abilities, resulting in productivity increases and higher quality outputs. Economic theory suggests that incentive-based variable pay can also allow a firm to cultivate a more highly productive workforce [30].

Private-sector variable pays can also suffer from shortcomings. Variable pays that are poorly structured may result in unintended adverse outcomes. For example, a gainsharing program (described below) that places more value on quantity than on quality may result in low-quality production. In some cases, variable pays can become viewed as entitlements, thus undermining morale if conditions do not warrant payouts. As [26] notes, unmeasurable or unobservable aspects of performance or poorly specified goals can result in the misallocation of workers' effort. Individuals seeking to meet performance targets also may undermine team cooperation. In addition, programs that

19. "Exempt" employees are those who are exempt from the Fair Labor Standard Act's overtime pay requirements.

base payouts on factors that are outside the workers' control may actually create disincentives for effective work. Because of these challenges, variable pays must be carefully targeted and highly transparent. Workers must be fully aware of the basis on which variable compensation will be determined, and these factors should be either directly or indirectly under the individual's or team's control.

Types of private-sector incentive-based variable pay

Private-sector employers currently offer a variety of incentive-based variable pay programs, and the popularity of these programs has been steadily growing over time. A recent William M. Mercer survey finds that 37 percent of all firms currently use individual nonmanagement incentive-based variable pay, up from 31 percent in 1994 [28].

Bonus and award programs

Most firms offer bonus and award programs, which can include cash profit sharing, incentive or performance bonuses, retention and hiring/signing bonuses, and other nonmonetary recognition awards.

Cash profit-sharing programs share a portion of firm profits with employees according to a predetermined formula and are typically awarded on an organization-wide basis. William M. Mercer reports that 20 percent of all companies currently offer such programs [28]. Among large companies, 28 percent offer cash profit-sharing awards [31]. Cash profit-sharing programs are usually considered less effective than gainsharing programs (described below) because profits can vary considerably as a result of factors beyond workers' control, thus loosening the link between individual performance and the cash profit-sharing payout.

Incentive and performance bonuses are used quite frequently today. Half of all surveyed firms now offer spot cash awards, up from 48 percent in 1999 [28]. Among large companies, a Federal Reserve Bank study finds that 75 percent of large companies offered incentive or performance bonuses in 1998, and the Society for Human Resource Management (SHRM) puts the share at around 70 percent today [22, 29].

Many companies are also using hiring/signing, referral, and retention bonuses to attract and retain employees. A Federal Reserve Bank study

finds that 32 percent of interviewed firms used hiring bonuses, 30 percent used referral bonuses, and 24 percent used retention bonuses in 1998 [29]. There is some evidence that use of these practices has escalated in recent years as labor markets have tightened; a William M. Mercer survey finds that 66 percent of all companies are using signing/hiring bonuses [32]. Use of such incentives is higher among larger companies. Data from SHRM and Buck Consultants show that between 68 and 77 percent of large companies currently use hiring/signing bonuses [19, 22]. In addition, about 45 percent of the Fortune 1000 currently use retention bonuses [19].

Finally, noncash awards are used in most private-sector firms. Over 70 percent of all firms have noncash incentive awards, up from 68 percent in 1999 [28]. And the Center for Effective Organizations (CEO) reports that 96 percent of large companies offered nonmonetary recognition awards for performance to at least some of their employees in 1999 [33].

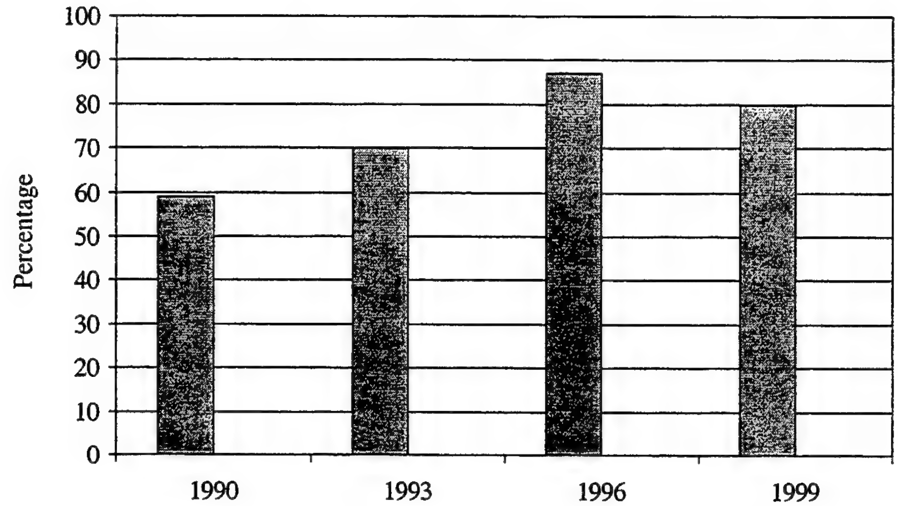
Group performance awards

Group performance awards, such as team-based incentives and gainsharing programs, also offer employers a way to better link pay to performance. Team-based incentives offer additional compensation to employees based on the performance of their workplace team. Gainsharing programs reward employees at the work-unit level for measured improvements in productivity. Typically used in conjunction with workplace teams, these programs share measured gains with employees through frequent bonus payments based on a predetermined formula.[20]

Team-based incentives have become more pervasive in private-sector companies over time. A recent William M. Mercer survey finds that 27 percent of all companies use team/small group incentives, up from 12 percent in 1993 [28]. Work-group or team incentives are much more prevalent among larger companies. CEO data show that 81 percent of Fortune 1000 companies offered work-group or team incentives in 1999, up from 59 percent in 1990 (figure 4) [33].

20. For a more detailed description of the structure of gainsharing programs and their effects on productivity and wages, see [34].

Figure 4. Team-based incentive pay is prevalent[a]



a. Source: [33].

Gainsharing programs have also become more prevalent. About 12 percent of all surveyed companies currently have such programs in place [28]. Gainsharing is much more common among larger companies. Reference [27] finds that 20 percent of large companies use these programs for all of their employees and the CEO reports that 53 percent of Fortune 1000 companies had gainsharing programs for at least some employees in 1999, up from under 40 percent in 1990 [33].

Equity participation programs

Equity participation programs allow companies to offer incentive-based variable pay on an organization-wide basis. These programs can take several forms, including stock options, stock bonuses or grants, employee stock purchase programs, restricted stock, or stock appreciation rights.

Stock option programs give employees a one-time or annual right to purchase shares of stock in their company for a fixed price, known as the grant price, for a specified number of years into the future. Options are granted based on a percentage of pay, a merit formula, or on an equal basis. Employees typically must wait a set period (usually 3, 5, or 7 years) until their right to purchase shares vests and they can

exercise granted options. Stock bonus or grant programs allow employees to directly receive employer stock. If employer stock is not publicly traded, the employee has the right to require the employer to repurchase stock under a fair market value formula.

Employee Stock Purchase Programs (ESPPs) allow employees to purchase stock, either at a market or discounted price, with after-tax payroll contributions. Restricted stock is stock that is given or sold at a discount to an employee, who is restricted from selling or transferring it for a specified amount of time. The employee receives dividends but must forfeit the stock if employment ends before the restricted period. Finally, stock appreciation rights, sometimes called "phantom stock," are like stock options, except no actual transaction takes place. Employees accrue value based on changes in the value of stock since the rights were granted. In this form, the employee receives the benefits associated with stock ownership without the attendant cost and risk.

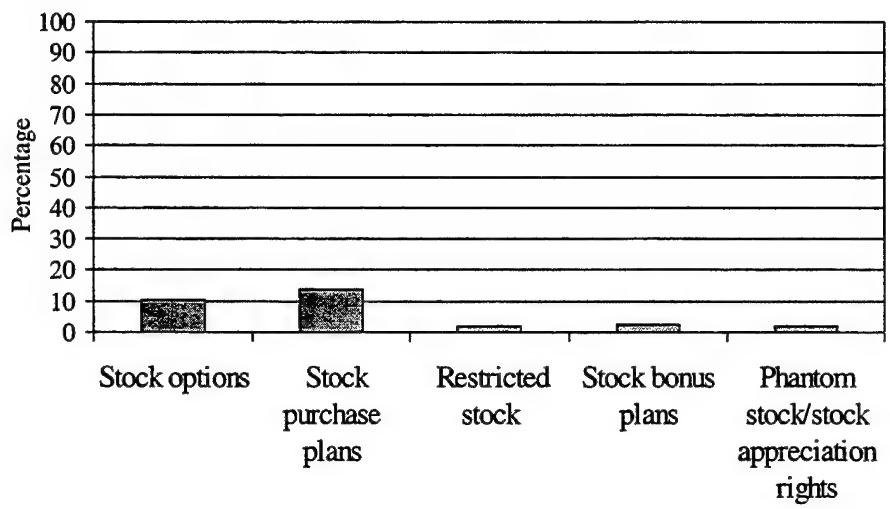
New data from the Bureau of Labor Statistics examine the prevalence of various equity participation programs in establishments with 100 or more employees. The survey finds that about 10 percent of establishments of this size granted stock options in 1999, about 14 percent offered stock purchase plans, and a relatively small share offered such things as restricted stock, stock bonus plans, or phantom stock. Among publicly held companies of this size, 30.5 percent granted stock options in 1999 [35] (see figure 5).

These data have generated considerable controversy because data from other sources show that many large firms offer equity participation programs to their employees.[21] One reason for the discrepancy could be that the BLS data only account for establishments that made grants in calendar year 1999. Establishments that had stock option plans in place but did not make grants in that year were excluded. Another potential source of bias is that all companies were included, not just publicly held ones. In fact, the data show that, when the

21. For example, a recent WorldatWork survey found that 56.1 percent of for-profit company respondents report using some type of stock program for compensation purposes. See [10].

sample is limited in that way, 30.5 percent of publicly held companies with 100 or more employees offer stock options in 1999 [35]. A final source of possible bias could be the fact that data from other sources are typically not based on representative sample surveys.[22] As such, data may be subject to some statistical biases.

Figure 5. Equity participation programs are relatively rare[a,b]



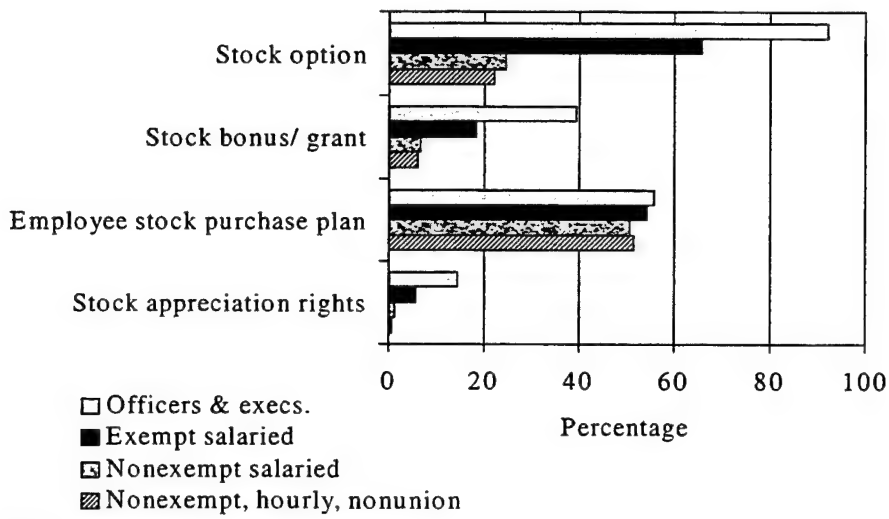
a. Note: Data for private-sector establishments with 100 or more employees.
b. Source: [35].

We have evidence that equity participation programs are more prevalent among larger companies. For example, in the case of stock purchase plans, a recent HayGroup survey finds that over one-quarter of medium to large companies offer such programs to their employees [20]. And over half of Fortune 200 companies offered such plans to their employees in 1998 [36].

22. For example, a 1999 Federal Reserve study that reported that almost 60 percent of companies with 1,000 or more employees offer stock options to at least some of their employees used data from private interviews with bank contacts. See [29].

Access to equity participation programs varies considerably by professional status. Data from a WorldatWork survey show that officers and executives are the most likely to participate in such programs, with exempt (workers exempt from the Fair Labor Standard Act's overtime requirements) salaried workers, nonexempt salaried workers, and nonexempt, hourly, nonunion workers less likely to be included in stock-based programs (figure 6).

Figure 6. Availability of equity participation programs varies by professional status[a]



a. Note: Data based on survey of companies of all sizes offering stock-based plans. Source: [10].

Although traditionally reserved for executives, surveys show that equity participation programs are slowly making their way down the corporate ladder. In the case of stock options, a William M. Mercer analysis of large company proxy statements found that nearly 50 percent had broad-based stock option plans in 2000 and 18 percent of those companies made grants.[23] This was considerably higher than in 1993, when only 18 percent of large companies had broad-based stock option plans, and 6 percent made grants [28].

23. Broad-based stock option plans are typically defined as those that are offered to at least half of a firm's workforce.

Other surveys show considerable use of broad-based stock options among large companies. A recent HayGroup survey finds that 15 percent of medium and large firms offer broad-based stock options [20]. A 1998 survey by Hewitt Associates LLC found that almost 30 percent of all surveyed large companies offered broad-based options [36]. Finally, Fortune 1000 surveys by the CEO and Buck Consultants report that between 31 and 37 percent offer broad-based stock options [19, 33].

By granting workers a stake in the firm, equity participation programs give workers additional incentives to work effectively and to improve firm performance. A survey from the early 1980s found that the more stock shares an employee owned, the more committed they were to their jobs, and the less likely they were to leave.[24] More recent research finds that combining equity participation programs with teams and performance pay improves measured productivity, worker-satisfaction, and management-employee relations [37].

A comparison of private-sector and military variable pay

In the military, variable pays generally fall into three (sometimes overlapping) categories: those used for recruitment and retention purposes, those used to compensate individuals for adverse conditions or arduous duties, and those used to provide subsistence. Only the first two pay categories can potentially be viewed as "incentive-based" variable pays.

Accession and continuation pays

Like its private-sector counterparts, the military uses an array of variable pays to attract and retain personnel with critical skills and to allocate these individuals across jobs. Like private-sector signing/hiring bonuses, Enlistment Bonuses (EBs) are taxable monetary awards that the military uses to entice recruits to enlist in certain critical specialty areas or—in the case of the Army—to attract individuals into the infantry. These may be paid partially as a lump sum (usually about 50 percent) with the remainder paid in annual installments, and

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24. National Center for Employee Ownership, "An Overview of ESOPs, Stock Options, and Employee Ownership," http://www.nceo.org/library/overview.html.

cannot exceed $20,000. Selective Reenlistment Bonuses (SRBs), which are similar to private-sector retention bonuses, are monetary awards designed to entice personnel to reenlist in critical specialty areas or to encourage other servicemembers to enter those fields. Based on a formula using length of reenlistment and the need for critical skills, these bonuses cannot be larger then $60,000 annually. Those failing to complete the period of obligated service may be subject to recoupment of the bonus for the unserved portion of the enlistment.

In addition to EBs and SRBs, there are a host of variable pays available for enlistment or reenlistment in various specialty fields. Officers in the Nuclear, Aviation, Engineering, Science, Medical, and Dental fields, Veterinarians and Optometrists, Navy Commanders, individuals performing special duties, and those with proficiency in critical languages are all eligible for special bonuses in addition to basic pay.

Accession and continuation pays provide some flexibility in military compensation by allowing the creation of occupational pay differentials. The military can determine the critical skill areas to target and the award amounts, subject to broad eligibility and award limitations determined by Congress and the DoD. However, unlike similar private-sector pays, there is no variation by individual.

Adverse conditions/arduous duties pays

Other military "incentive-based" variable pays are designed to compensate personnel for adverse conditions or arduous duties and to allocate individuals across jobs. These condition-based pays include Sea Pay, Diving Pay, Flight Pay, Submarine Duty Pay, Hazardous Duty Pay, Hardship Duty Pay, and Imminent Danger or Hostile Fire Pay. A Family Separation Allowance is also available for military personnel who are assigned to a location where other family members are not authorized to go. These pays roughly equate to what are termed "compensating differentials" in the economic literature. Although such differentials are typically included in private-sector base salaries and wages, the military's reliance on a uniform pay structure results in the separate addition of these pays.

Although they do provide some flexibility, military incentive-based variable pays represent a relatively minor share of total compensation. Taken together, discretionary variable pays amount to a relatively small share of military compensation. For example, only 7 percent of the Navy's personnel budget in FY99 was in discretionary categories [26]. As Paul Hogan notes in other sections of the QRMC, the tight link between occupation, rank, and pay created by the pay table structure further restricts flexibility in military compensation.

Perhaps the most striking difference in military and private-sector compensation is that there are virtually no military variable pays that are designed to attract and retain high-quality personnel and to motivate effective work by linking pay and performance, particularly at the individual or team level [26]. As such, no military equivalents exist for cash profit-sharing, spot cash awards, performance or incentive bonuses, equity participation programs, gainsharing plans, or team-based incentives.

Alternatively, the military often uses promotions as a means of rewarding good performance. Because rank and pay are linked and there is substantial variation in promotion rates, promotions do help to link performance and pay. This mechanism, however, has a shortcoming: because leadership authority is linked to rank, a promotion may not always be appropriate. For example, it may be the case that an individual with outstanding technical expertise may require a pay premium, but may not necessarily have the skills and/or experience to warrant additional leadership authority.

There may be several legitimate reasons why the military offers less pay variability than the private sector. First, unlike in many private-sector firms, there is no military "production" to measure. As a result, gainsharing and profit-sharing programs may prove impractical in a military context. Individual and team contributions to "readiness" are not easily defined or measured, making it more difficult to assess the performance of individual military personnel.[25] Many variable pays,

25. This does not mean, however, that such assessments are impossible. In fact, evaluations of servicemembers' performance are routinely made through fitness reports, selection boards, and other means.

such as performance or incentive bonuses, spot cash awards, and team-based incentives, require individual performance appraisals. Second, many private-sector variable pays, such as stock options, stock grants, stock appreciation rights, and ESPPs, are equity-based. Obviously, no "equity" is available in the military context to motivate effective work. Finally, many fear that variability in military pay may undermine the military's unique equity goals.

Despite these concerns, there are several reasons why the military may want to consider introducing more variability into its pay system. Increased competition with the private sector, particularly in critical skill areas, may warrant more comparable compensation structures. Military allowances and other variable pays are often complicated and confusing, and many servicemembers do not view them as a significant component of total compensation. Conversely, many variable pays in the private sector are more visible (i.e., stock options) and workers view the returns as roughly equivalent to cash. Finally, changing external conditions may be transforming the requirements of military compensation. The military's institutional goals of "youth and vigor" and pay equity may be less relevant today than in the past, particularly as technological progress changes the military's skill needs.

Introducing more variability into military pay

A variety of reforms could be instituted to help make military variable pays more effective. Skill-based pay—not in the form of bonuses that occur in a lump sum or in installments, but as a regular component of a servicemember's pay—could provide the military with some additional flexibility in compensation and the ability to vary pay among individuals across skill groups. Implementing this type of pay, however, would require the separation of pay and rank—a controversial move recommended in prior CNA research [26]. This notion has received more attention in recent years because it has been recognized that personnel with technical skills may command a pay premium. This idea has also gained some support within military circles. As General Michael Ryan, the Air Force's Chief of Staff, recently commented, "I think legislation will be needed in the future...to try and pay for capability in our armed forces rather than paying for rank" [38].

Other less expansive steps could be taken to make military pays more effective. For example, bonuses that are contingent on completion of the first enlistment period could be introduced to reduce attrition.[26] These may be most effective if they are distributed in lump sums to military personnel upon the attainment of specified milestones through a series of smaller payments that precede the final larger payment. Consolidation of several special and incentive pays into one lump sum could also help to alleviate confusion associated with many of these pays today. Finally, the wider use of nonmonetary awards—such as a phone call to the family of an outstanding servicemember or noncharged leave awards—could also serve as a useful performance incentive at the individual level. The military already makes strong use of such awards, through events like promotion and retirement ceremonies, but awarding other nonmonetary rewards could also be effective. For example, Marines on leave who recruit acceptable candidates for enlistment are recommended for a 5-day leave extension or a 4-day special liberty per accepted recruit, up to two recruits annually.

Finally, the penalties associated with noncompletion of a military contract should also be binding. Instead of only recouping the enlistment or reenlistment bonus associated with the unserved portion of a contract, the military may want to consider requiring repayment of an entire bonus if attrition occurs.

Leave

Paid leave in the private sector

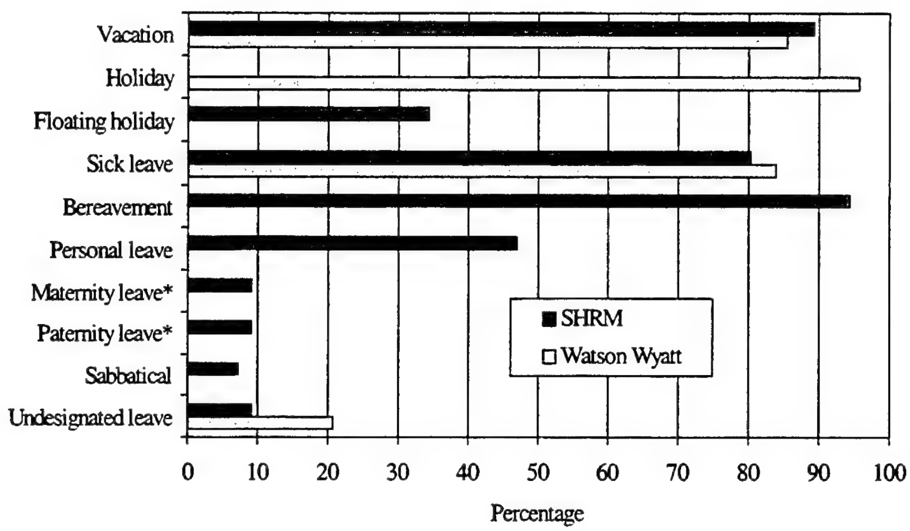
As figure 7 shows, most large companies offer traditional forms of paid leave, such as vacation, holiday, sick, and bereavement leave.[27] Personal leave—leave to cover situations not included in traditional leave policies—is less prevalent, offered by about half of large firms.

26. As noted previously, over a third of recruits leave the military before completion of their first term. Such a bonus could be relatively expensive because it would be payable to individuals who would have completed their contract, even without the monetary incentive.

27. Bereavement leave usually is only a few days in duration and is typically limited to the death of a family member.

Other forms of paid leave, including paid maternity and paternity leave and sabbaticals, are relatively rare.[28] Finally, in a relatively new phenomenon, between 9 and 21 percent companies offer employees undesignated leave that can be used for any purpose.

Figure 7. Private-sector paid leave offerings[a]



a. Sources: [22] and [23].
*Paid maternity and paternity leave figures exclude firms providing pay through short-term disability policies.

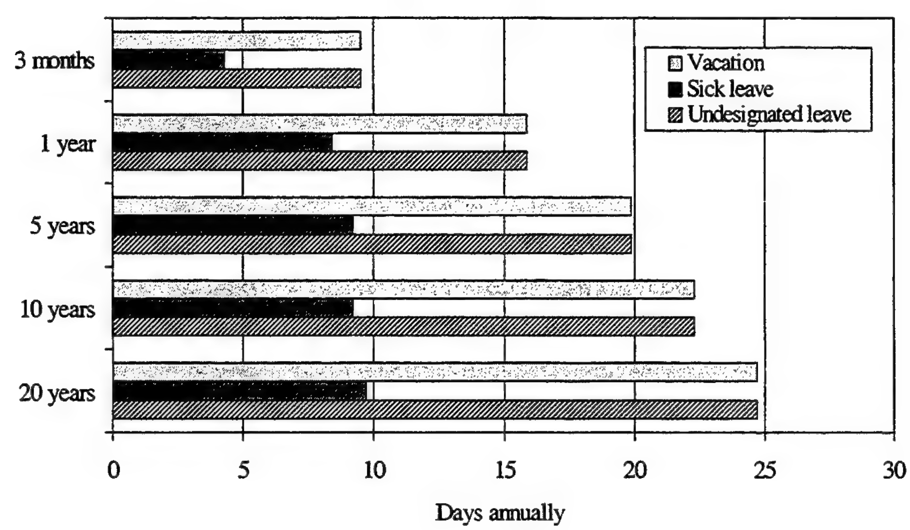
Some private-sector leaves are not necessarily set in policy, but are granted "as needed." For example, the Families and Work Institute finds that most firms offer some flexibility for child care and school activities. Almost 88 percent of surveyed companies allowed their employees informally arranged paid time off for school/child-care functions, and 49 percent of surveyed companies granted paid time off for the care of mildly ill children [39].

28. Maternity and paternity paid leave figures exclude pay that the firm may provide through a short-term disability policy. If this pay is included, one survey finds that 53 percent of all firms provide some pay for women on maternity leave and 13 percent provide some pay for men on paternity leave [39].

Duration of leave

The amount of leave available to private-sector workers typically depends on its type. Some forms of leave—bereavement and holiday leave, for example—are fixed and each employee is offered the same leave allotment. Watson Wyatt finds that large, for-profit firms offer an average of 8.3 fixed holidays and 2.1 floating holidays annually. Other types of leave, such as vacation, sick, and undesignated leave, vary with length of service (figure 8).

Figure 8. Length of large, private-sector company paid leave offerings[a]



a. Source: [23].

Some large, private-sector employers allow employees to carry over or cash in some or all unused leave at the end of the year. Although data on the share of such firms offering carryover or cash-in options are not available, the Employee Benefit Research Institute reports that 29 percent of full-time employees in medium and large private establishments had only a carryover option for unused vacation leave in 1993. In addition, about 10 percent had only a cash-in option for unused leave, and 8 percent could choose either option. Half of all full-time employees in medium and large private establishments lost unused vacation leave [40].

Short-term disability leave

In addition to leave available through sick leave policies, workers in large, private-sector firms may also receive up to 26 weeks of leave for illness or injury under a firm's voluntary short-term disability policy. Survey data indicate that 78 to 90 percent of large, private-sector companies offer short-term disability insurance to employees, and policies usually replace about 50 to 67 percent of an employee's income. Five states (California, Hawaii, New Jersey, New York, and Rhode Island) have laws mandating that employers provide short-term disability benefits to employees.[29] However, many private and mandated policies are subject to initial waiting periods.

Long-term disability leave

Most large, private-sector firms also offer long-term disability insurance. An estimated 86 to 99 percent of firms with 2,500 or more employees offer long-term disability insurance to their workers today. These policies generally provide benefits from the end of the short-term disability period to the end of the duration of the disability or to retirement, whichever is sooner. Income replacement rates are typically set at 50 to 60 percent of the worker's basic compensation before the disability and are subject to weekly or monthly caps.

Unpaid leave in the private sector

Finally, large, private-sector companies also offer unpaid leave under certain circumstances defined in federal law. The Family and Medical Leave Act (FMLA) mandates that firms with 50 or more employees provide unpaid leave periods for workers meeting specified criteria. The law requires the provision of 12 weeks of unpaid, job-protected leave with continued health insurance coverage for disability relating to pregnancy, the care of a newborn or a newly adopted or newly fostered child, recuperation from a serious illness or injury, or for the care of a seriously ill parent, child, or spouse. Some pay during this leave period may be provided either voluntarily by firms, through mandatory or voluntarily provided short-term disability insurance policies, or through the substitution of other paid leave for the

29. The Pregnancy Discrimination Act requires that firms with short-term disability coverage treat pregnancy and related conditions the same as nonpregnancy conditions.

unpaid FMLA leave. Note that the employee can request or the employer can require that FMLA leave run concurrently with accrued leave. As such, the leave may be counted as part of the worker's annual leave entitlement. Some large, private-sector firms offer additional forms of unpaid leave to their employees. For example, about one-quarter of large, private-sector firms offer their employees unpaid sabbaticals and 73 percent offer unpaid leave of absences (for education or sabbatical purposes) not covered by the FMLA[30] [22, 23].

A comparison of military and private-sector leave

A comparison of private-sector and military leave offerings shows both similarities and differences. Members of the armed forces accumulate 2.5 days of paid vacation leave per month of active military service (30 paid vacation days per fiscal year) and servicemembers receive an additional 10 federal holidays annually. During paid leave periods, military personnel receive full pay and allowances.

One notable difference between military and private-sector vacation leave is in the timing of the leave offering. Although the average private-sector worker and military member will accrue roughly the same number of vacation days after 5 years of service, the rate of accrual differs significantly.[31] All military members accrue vacation leave at the same rate, regardless of their time in service, whereas leave in the private sector typically increases with tenure (figure 8). By offering equal leave entitlements to all personnel, military leave policy could serve as a less effective retention incentive than private-sector policies because servicemembers do not have to "earn" additional leave through increased tenure. As such, a reexamination of this policy and the reasons for its current structure may be warranted.

Private-sector and military leave policies also differ in the way in which they record the use of leave. Because the services operate on a 365-day calendar year, leave extending over a weekend must count Saturday and Sunday. Unlike common practice in the private sector, holidays and nonduty days are charged as leave if they fall within a leave period.

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30. Sabbatical leaves are usually defined as those granted for rest, travel, or research.

31. We equate 30 days of military leave to 4 weeks of private-sector leave because military leave counts weekends as leave days.

This policy, which is likely to be misunderstood by new military personnel, results in fewer leave days for those taking leave around a holiday, and the services should take care to make this clear to all personnel.

Heightened operational concerns in the military make the timing of leave-taking subject to restrictions. As might be the case in private-sector manufacturing environments, leave must be coordinated to avoid the disruption of critical functions. Ultimately, both private-sector and military leaves are subject to the approval of management.[32]

To ease these operational constraints, the military encourages personnel to use accrued leave at certain times—upon reenlistment or during a Permanent Change of Station (PCS) move, for example. Furthermore, military policy allows personnel to carry over up to 60 leave days into the next fiscal year.[33] If servicemembers meeting certain eligibility criteria have unused accrued leave remaining at the end of their service period, they may opt to receive payment for up to 60 days of the leave. This is limited to one sellback over the servicemember's entire career and is paid out at the rate of basic pay.

One area in which military leave policy seems more generous than private-sector leave policies is in case of illness. Whereas private-sector sick leave policies typically grant 4 to 10 days (varying with length of service) of such leave annually, the military grants generous leave periods for recovery from illness and for convalescence. Sick-in-quarters leave is granted for minor illnesses that do not require hospitalization. This leave is usually no greater than 72 hours, but can be extended to 14 days. Convalescence leave can be for a period of up to

32. In the case of the military, authority is delegated to the unit commander.

33. In some cases where operations preclude use of the leave allotment, the carryover limit has been eased. Recently, a special leave accrual was authorized permitting Sailors and officers, who might otherwise have lost annual leave on October 1, 2001, to carry over as many as 90 days of leave into the next fiscal year. The authorization was made based on emergency operational commitments resulting from the September 11 attacks, and enables affected personnel to use excess leave until the end of FY2004. See, for example, SecNav Instruction 1050.5C and MILPERSMAN 1050-070.

30 days per period of hospitalization, with longer leaves controlled at the command level. In both cases, the military places no formal restrictions on the amount of sick-in-quarters or convalescence leave provided annually (although certification of each illness is usually required). Leave is granted based on the presence of a qualifying condition. In addition, if a servicemember falls ill while on leave and the illness is certified by a physician, the time will not be charged against the member's annual leave account.

As in the private sector, military personnel also have access to both short-term and long-term disability coverage. Servicemembers incurring short-term disabilities are placed on the temporary disability retired list and are subject to a physical examination every 18 months. While on the temporary disability retired list, servicemembers receive a minimum benefit of 50 percent of basic pay. For long-term disabilities, the military disability system awards retirement benefits. A servicemember who can no longer perform his or her duties because of a permanent disability may be eligible for disability severance pay for up to 2 years. Servicemembers must meet specified criteria related to service status, circumstances of the disabling event, and length of service in order to qualify for payments. In addition to military disability payments, an injured or sick servicemember may also be eligible to receive Veterans' Disability Compensation and Social Security disability benefits.

Bereavement leave and leave for the care of a seriously ill family member typically fall under the military's emergency leave policy. This policy grants personnel emergency leave and extensions in case of a family emergency involving members of servicemembers' households, their immediate families, or sole surviving blood relatives. Emergency situations can include death of a family member, serious illness that requires the servicemember's presence, or severe hardship resulting in the need for the servicemember's presence. In some cases, the need for leave is verified by the Military Service activity nearest to the emergency or the Red Cross.

Unlike bereavement leave in the private sector, military bereavement leave is charged against the servicemember's leave account. Consequently, its advantages stem from the fact that permission for the leave is expedited and the servicemember receives first priority in travel arrangements. The government will sometimes pay for emergency

leave travel expenses and travel time will not be charged to the servicemember's leave account.

In emergency leave situations, personnel may be advanced as much as 30 to 45 days of leave. Excess leave—during which the servicemember is not entitled to pay and allowances—may also be authorized in emergencies, but only after all regular and advance leave has been used.[34] The sum of all leaves must not exceed 60 days. If the emergency situation persists beyond this period, the servicemember may be considered for humanitarian reassignment or a hardship discharge.

Military policies regarding leave for maternity and paternity differ considerably from those in the private sector. Military maternity leave is provided under stated sick/convalescence policies. As such, it is usually more generous than leave available in the private sector. For example, the Navy offers 42 days of paid maternity leave following the birth of a child. In the private sector, workers not covered by short-term temporary disability policies may only receive unpaid leave through the Family and Medical Leave Act. If FMLA leave is taken, however, the unpaid leave period can extend to 12 weeks—longer than the paid maternity leave available to military members. Unlike military policies, the FMLA mandates that women receive unpaid leave even in the case of a newly adopted or newly fostered child.

Military paternity leave policy, however, seems less generous than policies in the private sector. The Army, Navy, and Air Force offer no explicit paternity leave entitlement to military personnel.[35] The Marines offer 10 days of Permissive Temporary Additional Duty to married new fathers, but this leave is charged to their leave accounts. Such leave is also available in case of an adoption. In the private sector, unpaid paternity leave of up to 12 weeks is granted under the FMLA, and 13 percent of firms offer some pay during the paternity leave period. As noted above, however, the employer can require that this leave run concurrently with the worker's accrued paid leave.

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34. This leave can be roughly equated to the unpaid leave available in the private sector under the FMLA.

35. Confirmed by Lt Col Lynda C. Jackson, USAF, Assistant Director of Transition Benefits and Leave Policy.

Although a relatively small share of private-sector companies offer paid sabbaticals (which could be used for education and professional development, for example), the military offers very generous leave of this type. Military members may be granted leave in addition to their annual leave entitlement for a specified set of defined activities, including attendance at nonfederal society and organization meetings that enhance the servicemember's professional background or primary military duties.[36]

Eligible servicemembers may also receive up to 2 years of leave if pursuing an educational program. These individuals continue to receive basic pay and to accrue leave but may not receive other pay, allowances, or assistance in-kind. Although the time does not count toward the completion of the term of enlistment, it does count toward the computation of servicemembers' basic pay, eligibility for retired pay, and time-in-grade for promotional purposes. Servicemembers must commit in writing to a specified length of service following the leave.

Finally, servicemembers may be granted leave for a variety of special circumstances. For example, special liberties of up to 3 or 4 days are granted as compensation for long hours, arduous deployment, duty where normal liberty is inappropriate, ship duty while in overhaul away from homeport, or as recognition for exceptional performance. Special rest and recuperative absences of 15 to 30 days that are not chargeable to a servicemember's account are offered under certain conditions, usually as an incentive to extend tour length at certain overseas locations, and may even include government-paid transportation. Administrative leave in addition to a servicemember's annual leave entitlement can be granted for some activities, such as competitive sports events, PCS family moves, or house-hunting to a PCS where government quarters are not immediately available.

36. These absences, generally referred to as administrative leaves, are granted with full pay and benefits and are not chargeable against a servicemember's leave account.

Private-sector health insurance

Basic health insurance

Health insurance is a very prevalent benefit in the private sector, with virtually all firms offering some form of health insurance to employees. Surveys by the Families and Work Institute and the Society for Human Resource Management find that 97 to 99 percent of all surveyed companies offer their employees health insurance [22, 39]. Company surveys by the Kaiser Family Foundation and Watson Wyatt report that 99 to 100 percent of large firms offer health insurance today [23, 41].[37]

Types of health insurance provided

Over the last several years, cost management concerns in the private sector have brought about a shift away from provision of conventional fee-for-service plans toward the provision of Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and Point-of-Service plans (POSs).[38] As recently as 1990, most medium and large companies offered fee-for-service plans. As figure 9 shows, today between 4 and 9 percent of large firms offer conventional health care plans, whereas 28 to 37 percent offer HMOs, 35 to 44 percent offer PPOs, and 19 to 22 percent offer POS plans.

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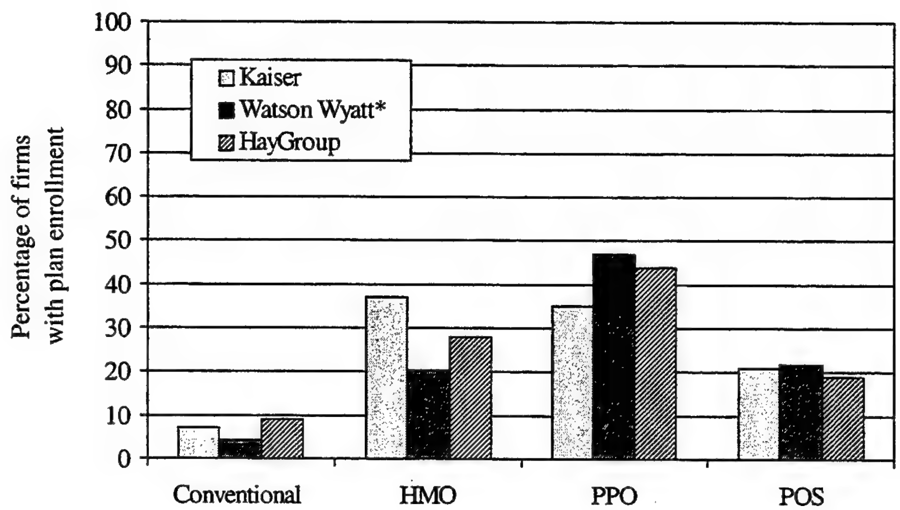
37. Reported Kaiser data are for firms with 5,000 or more employees; Watson Wyatt data are for for-profit private-sector companies with 2,500 or more employees.

38. Fee-for-service plans are those in which authorized providers are paid a specific amount for each service performed. In HMO plans, the health care provider receives a fixed premium each month on behalf of each participating employee and is then obligated to provide a comprehensive range of health care services through primary care physicians or appropriate referrals. PPOs combine fee-for-service with some of the utilization controls found in HMOs by encouraging employees to seek care from preferred providers, who generally furnish health care services at contractually discounted rates. POS plans also mix features of fee-for-service and HMO plans. Employees pay a small copayment per visit to in-network physicians, but have the option of receiving care from out-of-network providers, typically subject to higher deductibles and copayments. See [42].

Reported data indicate the structure of a firm's primary health care plan. But most firms offer employees a choice among several plans. Data from the Kaiser Family Foundation show that 16 percent of employers with 5,000 or more employees offer only one health care plan, 17 percent offer a choice between two plans, and 67 percent offer employees a choice between three or more health care plans [41]. Most health care is offered off site, with only 17 percent of large companies offering onsite health clinics [23].

Figure 9. Conventional health insurance no longer the norm in the private sector[a]



a. Sources: [20], [23], and [41].
* Employee Provider Organizations, offered to 7 percent of employees, are an omitted category.

Cost of health insurance

In the private sector, employees typically share the costs of health care through direct contributions, copayments, and deductibles. Watson Wyatt reports that 92 percent of for-profit employers with 2,500 or more employees require an employee contribution. The majority of large firms require the same employee contribution from all workers, whereas about 11 percent vary the contribution on the basis of pay level, position, or length of service [23]. Kaiser survey data show that

average monthly employee premiums for single coverage in firms with 5,000 or more employees were between $26 and $39, depending on the plan.[39] On average, large employers pay about 86 percent of required health care premiums for single coverage. Among the Fortune 1000, about two-thirds of surveyed companies pay 76 to 100 percent of their employees' health care costs [43].

In addition to employee premiums, most health care offerings require a copayment (members pay a specified charge per service), and about 54 percent of large for-profit firms have in-network deductibles (members must pay a specified amount before insurance begins). Copayments for in-network office visits averaged around $12 in for-profit firms with 2,500 or more employees, and the average deductible was $163 in firms of this size.

Retiree health insurance

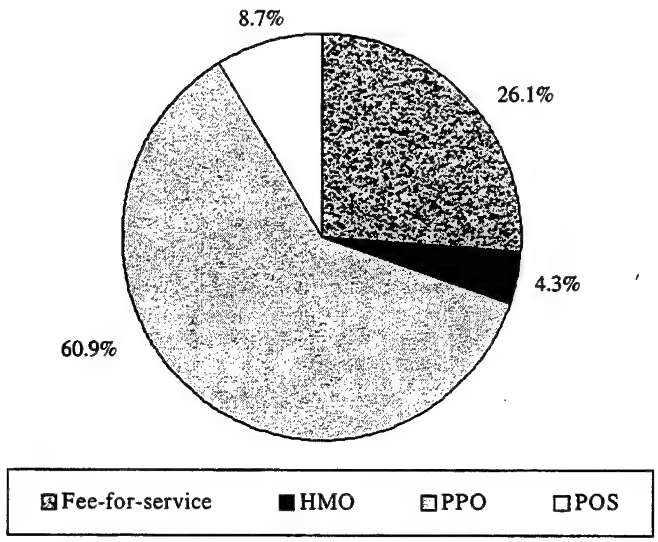
Retiree health insurance is less prevalent than employee health insurance in the private sector, and its prevalence has been decreasing over time. The Kaiser Family Foundation reports that about 52 percent of firms with 5,000 or more employees offer retiree health benefits today, down from 73 percent in 1988. Of firms of this size offering retiree health benefits, 98 percent offer them to early retirees and 79 percent offer them to Medicare-eligible retirees [41]. SHRM reports that 56.6 percent of firms with 2,500 or more employees offer retiree health benefits [22]. Finally, data from Watson Wyatt show that 53 percent of for-profit firms with 2,500 or more employees provided retiree medical benefits for retirees under age 65, and 41.7 percent provided such benefits for retirees over age 65 in 2000. About 89 percent of offered plans provided some prescription drug coverage for individuals age 65 and over. As figure 10 shows, PPO plans were the most popular primary retiree medical plan offered [23].

Most retiree health plans require retiree contributions. In contributory plans, the average monthly contribution for retiree medical coverage in large firms was $137 for retirees under age 65 and $79 for

39. Average monthly premiums were $39 in conventional plans, $26 in HMO plans, $31 in PPO plans, and $31 in POS plans.

retirees over age 65. Among firms with 2,500 or more employees offering retiree health benefits, 65.6 percent had in-network deductibles that were $239 on average. Eighty-two percent had out-of-network deductibles that averaged $359. In-network copayments averaged $10.98 per office visit and $13.33 per brand name prescription [23].

Figure 10. Primary private-sector health care plan offered to retirees[a]



a. Source: [23].

Other health insurance programs

Large, private-sector firms also offer a range of other health insurance programs (figure 11).

Examples of these other health insurance programs follow:

- *Prescription drug programs* - 94 to 99 percent of companies with 2,500 or more employees offer prescription drug programs. In addition, 82 to 91 percent of companies of this size offer mail-order prescription drug services.
- *Dental programs* - Virtually all large companies offer dental programs to their employees. Data from SHRM and Watson Wyatt

show that 99 to 100 percent of companies with 2,500 or more employees offer these programs to their employees.

- *Vision programs* - Among companies of all sizes, about 46 percent offer vision programs [44]. But as figure 11 shows, data suggest that large companies offer these programs more frequently—81 to 84 percent of firms with 2,500 employees or more offer vision programs.

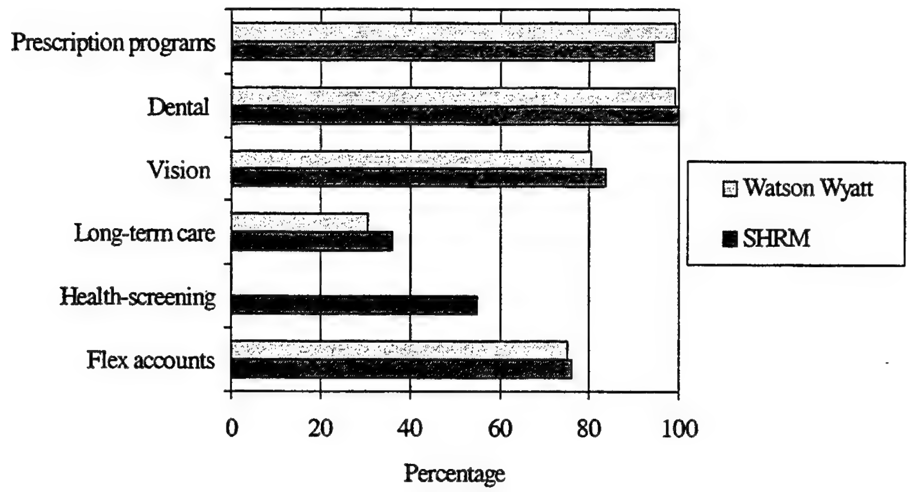
- *Wellness programs* - Surveys show that 51 to 61 percent of all companies offer these types of programs. Wellness programs have become increasingly popular among large, private-sector companies over time. Data from Hewitt Associates report that 93 percent of large companies offer health promotion programs, up from 88 percent in 1994. A HayGroup survey finds that 76 percent of medium and large companies offer such programs today. Figure 12 shows the prevalence of various types of wellness programs.

- *Long-term-care insurance* - Data from William M. Mercer and the International Foundation of Employee Benefit Plans show that long-term care insurance is offered by 15 to 16 percent of companies of all sizes [44, 45]. Watson Wyatt reports that about 31 percent of companies with 2,500 or more employees offer this kind of insurance benefit.

- *Health screening services* - About 55 percent of large firms offer health screening services [22] (figure 11).

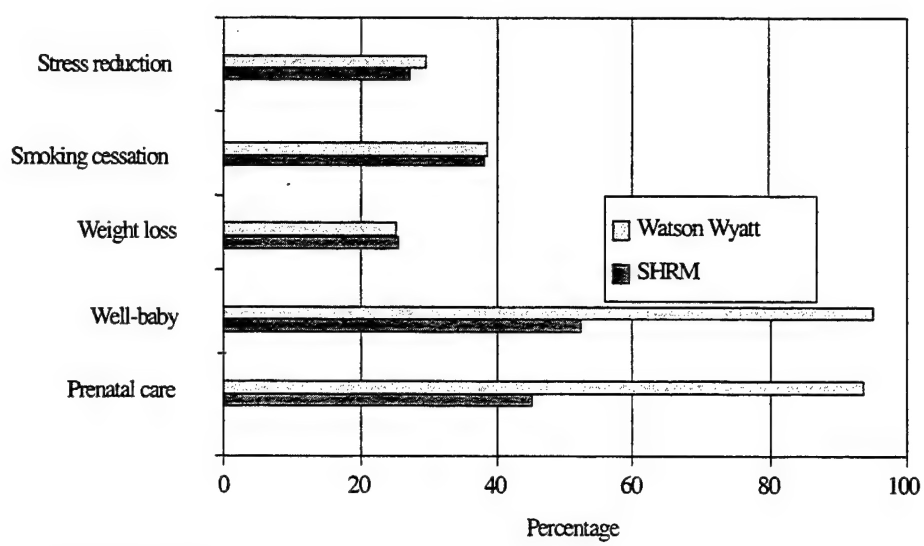
- *Flexible spending accounts* - An increasingly popular health benefit is the provision of flexible spending accounts for health-related expenses. HayGroup data show that 86 percent of medium and large companies offer flexible spending accounts today, up from 57 percent in 1990 [20]. William M. Mercer reports that 60 percent of all companies offer these accounts and, as shown in figure 11, data from SHRM and Watson Wyatt find that about three-quarters of firms with 2,500 or more employees offer these accounts.

Figure 11. Other health insurance programs[a]



a. Sources: [22, 23].

Figure 12. Private-sector wellness programs[a]



a. Sources: [22, 23].

A comparison of private-sector and military health insurance

Basic health insurance for active duty personnel and their dependents

In the military, health insurance is provided through TRICARE, a regionally managed, comprehensive health care insurance and delivery system. Military personnel, family members and survivors of active duty personnel, and retirees and their family members receive this care through a combination of military hospitals, clinics, and civilian providers.

Three TRICARE plans are available: TRICARE Prime (an HMO plan), TRICARE Standard (a fee-for-service plan), and TRICARE Extra (a PPO plan). Although other TRICARE-eligible beneficiaries may choose among these three plans, active duty personnel are automatically enrolled in TRICARE Prime. As data reported above show, most large, private-sector companies offer employees a choice of three or more plans—usually each with a different structure. Although the inclusion of a POS option in TRICARE Prime has introduced some choice to servicemembers, access to multiple plans would let servicemembers choose a plan that best suits their individual needs.

Another significant difference between private-sector and military health care offerings is the cost incurred by enrollees. Unlike in the private sector, military personnel and their family members do not typically contribute directly toward their health care premium expenses. And while most private-sector plans require copayments and about half also have deductibles that must be met before coverage begins, active duty families enrolled in TRICARE Prime pay no deductibles or copayments. Outpatient and inpatient treatment at a military treatment facility is free under TRICARE Prime. Costs are considerably higher under the POS option, which sets a $300 outpatient deductible ($600 per family), 50 percent cost-shares for outpatient and inpatient claims, and liability for excess charges up to 15 percent over the allowed amount.[40]

40. www.tricare.osd.mil/tricare/beneficiary/tricareprime.html#pos

The two other health care programs available to TRICARE-eligible beneficiaries also entail low costs but require copayments and deductibles. TRICARE Standard requires no enrollment fee, but eligible beneficiaries (other than retirees) make copayments of 20 percent of allowable charges for civilian doctor visits and prescription drugs. Deductibles range from $50 to $150 for individuals and $100 to $300 for families. Inpatient civilian care costs about $11 a day or $25 a stay, whichever is higher. Additional discounts are available if TRICARE Standard members use doctors in the TRICARE Extra network. TRICARE Extra, which also does not require enrollment or charge premiums, requires that users pay deductibles ranging from $50 to $300 prior to coverage and offers reduced cost sharing (15 percent versus the 20 percent under TRICARE Standard). The amount of cost sharing varies. For example, active duty families pay 15 percent of allowable costs for civilian doctor visits [46].

Although the absence of copayments and deductibles for active duty members and limited charges for other beneficiaries make military health benefits extremely generous, they do not create incentives for the prudent use of services. In fact, Watson Wyatt data show that 41.6 percent of large, private-sector firms either raised their copayments in 1999 or were planning to raise them in 2000. Similarly, almost 19 percent had either recently raised their copayments or were planning to raise them in 2000. In contrast, recently passed legislation will make active duty family members exempt from copayments for care from civilian providers effective April 30, 2001 [47]. Ultimate decisions as to the presence and level of copayments and deductibles may require efficiency and equity tradeoffs.

Retiree health insurance

Only about half of large, private-sector companies offer retiree health insurance, whereas the military offers extensive medical and prescription drug benefits to retirees under 65 as well as Medicare-eligible retirees. Retirees may receive space-available inpatient and outpatient care at military facilities for little or no cost. TRICARE PRIME is available to all retirees under age 65 for an annual enrollment fee of $230 for single members and $460 for a family plan. Retirees may also use TRICARE Standard or TRICARE Extra, which do not require enrollment fees. Retirees in TRICARE Prime pay copayments for inpatient

and outpatient civilian care ranging between $12 and $25 and some retail and mail order prescription costs. Retirees under age 65 pay 20 percent of the negotiated rate under TRICARE Extra and 25 percent of allowable charges under TRICARE Standard for civilian outpatient visits and retail prescription drugs. Retirees under age 65 pay a considerable share of their inpatient civilian care fees under TRICARE Standard and TRICARE Extra.[41] Military retirees both over and under age 65 and their families may also purchase a family dental plan.

Less than half of large, private-sector companies (about 42 percent) offer retirees over 65 health care benefits, but recent changes in federal law have extended military health care benefits to retirees over age 65. Under the FY 2001 National Defense Authorization Act, Medicare-eligible military retirees age 65 and over who are enrolled in Medicare Part B now have TRICARE as a second payer to Medicare.[42] TRICARE pays out-of-pocket costs for services covered under Medicare, and beneficiaries may be eligible for additional TRICARE benefits not covered by Medicare [49]. Eligible beneficiaries also receive full prescription drug benefits, including access to the National Mail Order Pharmacy program and retail pharmacies. These new beneficiaries do not pay enrollment fees or premiums for pharmacy benefits, but they do pay some modest copayments. According to DoD estimates, these recent changes affect approximately 1.4 million people [50].

It is perhaps surprising that Congress recently extended such generous benefits to retirees at a time when cost pressures are intense. In the private sector, the trend has been toward a contraction of such offerings and most large firms agree that future increases to retiree health benefits are unlikely. In the Kaiser Family Foundation survey,

41. Under TRICARE Extra, costs are the lesser of $401 per day or 25 percent of institutional charges, plus 20 percent of professional fees. Under TRICARE Standard, costs are the lesser of $401 per day or 25 percent of institutional charges, plus 25 percent of professional fees. See [48].

42. This program has been named "TRICARE for life." Retirees over age 65 can either use TRICARE Standard as a second payer to Medicare or they can enroll in TRICARE Prime, which will act as a Medicare HMO.

91 percent of firms with 2,500 or more employees said that it was unlikely or very unlikely that they would increase the generosity of retiree benefits over the next several years. In addition, of those providing retiree health benefits, the share of these firms providing such benefits to Medicare-eligible retirees has fallen from 93 percent in 1999 to 79 percent in 2000 [41].

Although the provision of generous retiree health care benefits is in keeping with the military's desire to take care of its members, these benefits will entail significant costs and place additional burdens on the military health care system. It is also unlikely that the program will contribute much toward the military's recruiting and retention goals. Because retiree health care benefits are relatively generous, compared with private-sector programs, it may encourage even those with existing private-sector health insurance or Medigap coverage to use military health care benefits, putting further strain on the system. Finally, providing these benefits to retirees over age 65 while leaving programs for retirees under age 65 relatively unchanged is also likely to create new tensions.[43]

Other health insurance programs

Like most large, private-sector firms, the military offers prescription drug, vision, and dental care benefits:

- *Prescription drug programs* - The military prescription drug program is very generous. Through the TRICARE system, all prescriptions filled at military treatment facilities (MTFs) are free. All TRICARE-eligible beneficiaries may use the DoD National Mail Order Pharmacy Program to have prescriptions delivered for a $3 to $9 charge if a medication is not available at the local MTF pharmacy, or if they prefer to receive prescriptions via mail.

43. For example, retirees over age 65 will not have to pay TRICARE Prime enrollment fees, which will still be collected from retirees under age 65. And by making TRICARE a second payer to Medicare, out-of-pocket costs for retirees age 65 and over will be considerably below those incurred by retirees under age 65.

- *Vision programs* - Vision care (including the provision of military-issue eyeglasses and contacts) is also available at no charge to military personnel through military eye clinics. Periodic eye exams are also covered under the TRICARE health benefit.

- *Dental programs* - All active-duty servicemembers may also receive free dental care at military dental clinics and facilities. Dental services for active-duty families at these facilities are offered on a space-available basis and are extremely limited. Alternatively, family members can obtain dental health insurance through the TRICARE Family Member Dental Plan (TFMDP). The program provides basic, specialty, and preventive care, and requires some premium payments and copayments.

Services offered less frequently by large, private-sector companies, including long-term health care and health screening services, are also available through the military health care program:

- *Long-term care* - TRICARE Prime covers noncustodial, skilled long-term health care as well as hospice care for the terminally ill. Because these services are rarely offered in the private sector, it is likely that many retirees over age 65 will switch to TRICARE coverage following the recent expansion of military medical benefits described above—a move that will entail considerable costs.

- *Health screening services* - TRICARE also offers a range of health screening services, including mammograms, cholesterol screenings, and health risk assessment appraisals. And all of the services have launched aggressive antismoking and unit level smoking cessation programs, education on the risk of smoking, and counseling services.

- *Flexible spending accounts* - One prevalent private-sector health benefit not currently offered to military members is access to flexible spending accounts. It may be instructive to consider the benefits and costs associated with the future extension of such accounts to military personnel and the degree to which personnel would value the benefit.

Other private-sector and military insurance

Most large, private-sector companies offer life insurance and Accidental Death and Dismemberment Insurance (AD&D) to their employees. SHRM reports that all companies with over 2,500 workers offer life insurance; Watson Wyatt sets the share offering life insurance at 98.6 percent. In addition, 85.9 percent of large, private-sector companies offer some supplemental life insurance coverage. Approximately 92 percent of large, for-profit companies offer AD&D, which pays full or partial benefits to designated beneficiaries if an employee dies or loses a limb in an accident.

In the military, Servicemembers' Group Life Insurance provides active duty military personnel with $250,000 worth of term life insurance coverage for $20 a month. Enrollment is automatic, and premiums are paid through an automatic paycheck deduction. Those choosing to refuse or reduce coverage must do so in writing. Upon the death of a servicemember, beneficiaries can receive payouts in one lump sum or in a series of 36 installments.

A direct equivalent to AD&D is not available in the military, but similar types of compensation are available. For example, Dependency and Indemnity Compensation, which compensates survivors for a death related to a service-connected disability or while on active duty, and a death gratuity—a $6,000 payment payable for the death of an active servicemember or for retirees who die within 120 days of retirement as a result of a service-connected injury or illness—may be available. Dismemberment compensation is usually included as part of military or Veterans' Administration disability policies. Finally, servicemembers can purchase a Survivor Benefit Plan. Through this program, servicemembers purchase a low-cost annuity that grants taxable benefits to dependents of military personnel who die in retirement. Enrollment is automatic after 20 years of service and paycheck deductions begin after retirement unless coverage is discontinued. Payments may be subject to a social security offset, and supplemental coverage is available.

Retirement

Private-sector retirement

Most large, private-sector firms offer retirement benefits. As with health insurance, the interesting trend in retirement offerings over time is changes in their structure. Since 1980, the share of medium and large companies with defined benefit plans has been steadily falling as the share with defined contribution plans has been rising (figure 13).[44] As figure 13 shows, today almost all medium and large companies offer defined contribution plans, and about 58 percent offer defined benefit retirement plans.[45] A recent Hewitt survey sets the share of large, private-sector companies offering defined benefit retirement plans slightly higher, at 65 percent [21].

Large employers offer several different types of defined contribution plans today. Thrift or savings plans are essentially employee savings accounts, which are often matched by employer contributions. These are the most prevalent type of defined contribution plan offered in the private sector today (see figure 14). The Profit Sharing/401(k) Council of America (PSCA) estimates that 340,000 U.S. companies offered 401(k) plans last year, up from 175,000 5 years earlier.[46] The plans covered some 41 million workers, up from fewer than 28 million in 1994, and the assets in their accounts totaled $1.7 trillion, according to the PSCA [49]. Combining data from Watson Wyatt, Hewitt Associates, and HayGroup, we estimate that 72 to 79 percent

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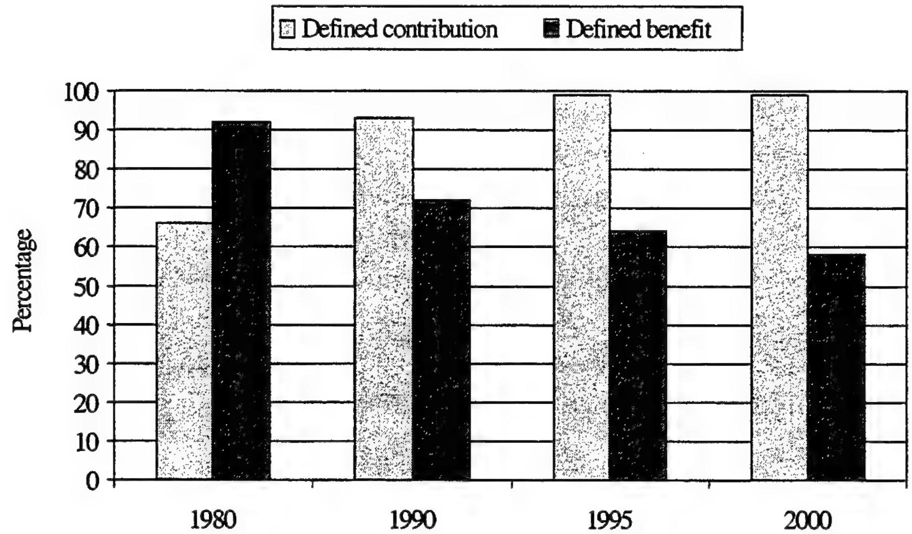
44. A defined contribution plan consists of individual accounts for participating employees. Employer contributions are allocated among employees' accounts according to a plan formula. Participants are entitled to their vested account balance. The account can contain both employer and employee contributions, depending on the plan's terms. A defined benefit plan specifies participants' benefit entitlements. The benefit is usually determined by a formula based on a percentage of compensation times years of service. See [42].

45. Many companies offer both defined benefit and defined contribution retirement plans.

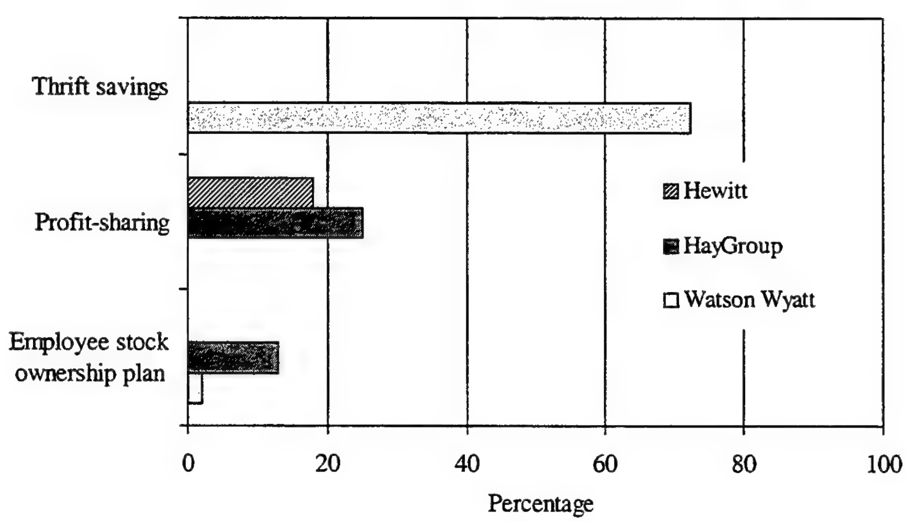
46. 401(k) plans are thrift savings plans that allow employees to defer part of their compensation on a pre-tax basis into the plan.

Figure 13. Most firms offer defined contribution retirement benefits[a]



a. Source: [20] Note: bars sum to over 100 percent due to some firms' dual offerings.

Figure 14. Types of private-sector defined contribution plans[a]



a. Sources: [20], [21], and [23].

of large companies currently have such plans. This estimate is supported by data from the PSCA showing that 78.3 percent of firms with 500 or more employees offered 401(k) plans in 1998 [51].

Most large, private-sector companies provide matches to their employees' 401(k) accounts. A 1999 Hewitt survey found that 92 percent of large companies matched employees' before-tax contributions to their 401(k) accounts. Of those companies making matches, 19 percent matched dollar for dollar and 32 percent offered 50-cent-per-dollar matches [52].

Profit-sharing plans, which distribute a portion of company profits, offer employees another type of defined contribution account. Contributions can be purely discretionary or based on a predetermined formula. Hewitt Associates estimates that 18 percent of large companies have such programs [21]. HayGroup estimates that 25 percent of medium and large companies have profit-sharing programs today, up from 21 percent in 1996 [20].

In an employee stock ownership plan (ESOP), employers contribute shares of company stock to employee accounts. Employee distributions are taxable unless rolled into an IRA or other qualified retirement account and distributions before retirement age are also taxed. ESOPs, popularized by a 1976-1986 federal income tax law that gave contributing companies a tax deduction, have become less prevalent in recent years. Watson Wyatt estimates that 2.1 percent of large employers currently offer ESOPs [23]. HayGroup finds that 13 percent of medium and large firms have ESOPs today, up from 11 percent in 1996 [20].

A comparison of private-sector and military retirement

Although much has been written on the advantages and shortcomings of the military retirement system, it differs most obviously from retirement plans offered by most large, private-sector companies because it is structured as a defined benefit plan that can be drawn on after as few as 20 years of service. After 20 years of service, servicemembers can receive retirement pay, which is based on their previous basic pay (not including bonuses or special and incentive pays).

Because many enlisted military members join between the ages of 18 to 20, this means they may retire as young as age 38 to 40.

The formula for computing retirement pay differs depending on the date on which the servicemember entered the military. Those entering before September 8, 1980, receive 50 percent of their basic pay at the time of retirement if they retire with 20 years of service, and receive an additional 2.5 percent of basic pay for each additional year of service between 20 and 30 years. For those who entered the military between September 8, 1980, and July 31, 1986, the payment is still 50 percent of basic pay, but is based on the average basic pay received during the 36 months that it was highest (High-3 formula), multiplied by 2.5 percent for each year of active duty service [46]. Finally, servicemembers who first became members after July 31, 1986, can choose between the High-3 retirement system or another system, called REDUX. Through REDUX, servicemembers accept a mid-career bonus of $30,000 at the 15-year service point, but must agree to remain on active duty for at least 20 years. This program offers retirees 40 percent of the average of the highest 3 years' basic pay after 20 years of service and 3.5 percent for each additional year served up to 30 years. When the retiree turns 62, annuities increase to match the High-3 formula of 2.5 percent for each year served. Retirement pay increases annually to offset inflation in the first two cases, but only partially offsets inflation in the last case. Payments are made irrespective of age, and the system requires no direct servicemember contribution.

In a 1997 Department of Labor report, the Working Group on the Merits of Defined Contribution Vs. Defined Benefit Plans noted several perceived advantages to both employers and employees of offering defined contribution rather than defined benefit plans [53]. Employers like defined contribution retirement plans because they are easier to administer and administration can be done at a lower cost. In addition, such plans do not leave companies as vulnerable to large liabilities for future expenses.

The group also reported that defined contribution plans, which express balances as lump sums, are easier for employees to understand than defined benefit plans. And employees may prefer the ability to capitalize on a rising stock market to the knowledge of a guaranteed monthly retirement income. Defined contribution plans

also have some features not available through defined benefit plans—for example, the ability to make before tax contributions and to withdraw or borrow funds before retirement.

One of the biggest perceived advantages to private-sector retirement plans is their vesting structure and associated portability. In the private sector, the Employee Retirement Income Security Act (ERISA) requires employers to vest employees in their retirement system within 5 to 7 years. Once employees are vested, they may take their account balances with them when they leave their current employer. Many view this portability as a positive feature of defined contribution plans, particularly as job mobility has increased over time.[47] In contrast, the military's defined benefit retirement system offers only cliff-vesting—those leaving the services before completing 20 years of active duty service receive no payments.

As Asch and Warner have noted, the reasons for this structure stem from several features that are unique to the military environment. The military retirement benefit has typically served both as a deferred compensation incentive to encourage retention and as a separation device. Both functions are needed, particularly since the military personnel system allows for no lateral entry. As such, they recommend an old-age benefit vested after 10 years that is either defined benefit or defined contribution in structure, coupled with a system of separation bonuses that could vary by occupation [54].

In fact, there are good reasons to believe that the military's retirement benefit as currently structured does not contribute toward the recruitment and retention of able young military personnel. Only about 30 to 40 percent of officer entrants and ten to 15 percent of enlisted entrants stay for a full 20-year career—a statistic that is likely to have worsened given the currently robust economic environment [54]. The military retirement system may have little to no value to a young person without dependents who does not anticipate a military career. A portable and vested defined contribution retirement plan may be more attractive to these individuals.

47. While some defined benefit plans allow employees to cash out their traditional pension benefits, most do not—making benefits nonportable.

Active duty military members recently gained access to a defined contribution retirement plan through the extension of the Federal Employees' Thrift Savings Plan (TSP) to active duty military members. TSP is a retirement savings and investment plan that offers tax benefits similar to those available to private-sector workers in 401(k) plans. Under the authorization, servicemembers can contribute up to 7 percent of their basic pay and all special and incentive pays and bonuses on a pre-tax basis to the plan, up to an annual limit of $11,000 [55].

Unlike federal employees, however, most servicemembers will receive no matching funds. Some servicemembers in certain critical specialties may receive some matches to their basic pay contributions, which will be determined by the secretaries of each service, but such contributions will require an additional service obligation. As noted earlier, most large, private-sector thrift savings plans match employee contributions. By not offering this feature, participation in the military's new defined contribution program will be less advantageous to servicemembers [56].

Educational and training programs

Private-sector educational and training programs

Educational programs offered by large, private-sector companies primarily take the form of tuition assistance or formal on-site or off-site training.

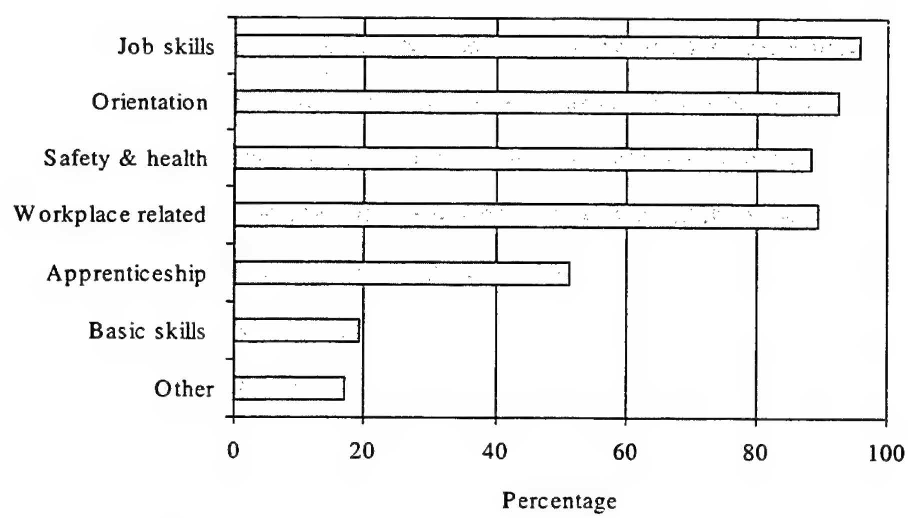
Private-sector tuition assistance

Data show that most large employers offer tuition reimbursement to their employees. According to Watson Wyatt, 92 percent of for-profit companies with 2,500 or more employees offer tuition reimbursement or remission to their employees today [23]. SHRM reports that 76 percent of firms with 2,500 or more employees offer educational assistance [22]. Finally, Hewitt Associates finds that 74 percent of large employers offer educational reimbursement [21].

Private-sector formal training

In addition to tuition assistance, many large, private-sector firms also offer formal training or professional development opportunities. Data from SHRM show that 90 percent of large firms pay for professional development [22]. A Hewitt survey finds that 75 percent of large companies offer some form of educational assistance or professional growth opportunities to their employees [21]. Finally, government data show that 99 percent of employers with 250 or more employees provided some form of formal training in 1993. As figure 15 shows, 96 percent of these employers provided job skills training, such as training in management or computer skills. A little over half of these employers offered apprenticeship training [57].[48]

Figure 15. Formal employer-provided training[a]



a. Source: [57].

Although most large, private-sector companies offer educational programs like tuition assistance and formal training, these programs may be quite narrowly focused or limited by restrictions. For example,

48. These data are from the last year for which this type of information was available.

most large firms impose restrictions on their reimbursement programs. A 1998 study by Hewitt Associates found that, of medium and large firms offering tuition reimbursement, 20 percent limited reimbursements to job-related courses (as defined by the IRS), and 23 percent limited reimbursements to tuition expenses. Forty-five percent of companies placed a dollar limit on reimbursements, and the median limit was $3,000 annually. Finally, most employers require a minimum service requirement before program eligibility, and a little over one-quarter of firms require that reimbursements be repaid if postreimbursement service periods are too short.

A comparison of private-sector and military educational and training programs

The military offers a wide array of educational programs. Some programs, such as tuition assistance and programs that provide basic and job skills training and training for professional advancement, are similar to—albeit more expansive than—programs offered by large, private-sector firms. Other programs, such as financial assistance for full-time college or graduate school study, college and graduate school credits, classes, and instruction, and a host of other voluntary education programs, are unique to the military.

Tuition assistance

Like most large, private-sector companies, the military offers servicemembers tuition assistance benefits. Under the program, which was made uniform across all the services in 1999, the military pays up to 75 percent of an active duty servicemember's tuition expenses for accredited college or university courses taken during off-duty hours. Reimbursements are capped at $187.50 per semester-hour credit, or $3,500 per fiscal year, which is comparable to private-sector programs' average reimbursement maximum.[49] Nearly 650,000 individuals enrolled in undergraduate and graduate programs in FY00, and nearly 27,000 degrees were awarded.

49. In the case of servicemembers assigned to a contingency operation identified by the Secretary of Defense and defined in Section 101(a)(13), title 10 of the United States Code, the responsible service pays all tuition or expenses up to a maximum of $187.50 per semester- hour credit.

The military tuition assistance program differs from private-sector programs in several ways. In some aspects, the military program's restrictions are less stringent. Unlike most private-sector tuition assistance programs, servicemembers do not have to meet a minimum service requirement before enrollment in the program. Furthermore, military tuition assistance is not limited to job-related coursework—funds can be used on all coursework that is not recreational in nature and is not toward completion of a degree at the same level as one already held.

The military tuition assistance program is more stringent than private-sector programs in other ways. Although only 23 percent of large, private-sector companies offering tuition assistance limited coverage to tuition only, the military program is limited in this way and does not include books, materials, and transcripts or lab, registration, or graduation fees. Servicemembers who do not successfully complete a course (earn a D or higher for undergraduate coursework, or a C or higher for graduate coursework) may have to reimburse the military for incurred expenses. Finally, some servicemembers are subject to postreimbursement service requirements. For example, Air Force officers must remain in active duty for 2 years beyond the course completion date or they are responsible for incurred tuition expenses.

Orientation and job skills training

Like most large, private-sector companies, the military offers servicemembers orientation and job skills training. However, military training is much more extensive than that typically available in the private sector. All military personnel receive orientation training in military culture and norms (for example, protocol) and skills (for example, firefighting) upon entry into the services. For enlisted personnel, this takes place in basic training (boot camp), whereas officers receive this training at Officer Candidate School or during NROTC or USNA college degree programs. Upon completion, individuals receive job skills or technical training. The amount of training depends on the eventual field of entry. For example, in the case of Navy enlisted personnel, Gendets receive apprenticeship training in general duties before going to the fleet, while those in other ratings attend "A"

school to learn job-related skills. Some individuals may follow this training with "C" school training in specialty job skills.

Officers also receive job skills training, followed by additional training for those pursuing particular specialties. Navy surface warfare officers, for example, must complete surface warfare officer school, which is sometimes followed by a specialty school, such as antisubmarine warfare school. Servicemembers may also have the opportunity to receive credit for "apprenticeship" training. Through the United Services Military Apprenticeship Program, Navy and Marine Corps training and experience can be certified in a way that is similar to the certification of private-sector training and experience.

Professional development opportunities

The military also offers personnel considerable opportunities for professional development. After completion of their training pipelines, individuals may have opportunities to pursue future training to further their chances of advancement. The College of Aerospace Doctrine, Research and Education, which prepares general officers from all military services for joint-warfighting leadership positions, and the Navy Senior Enlisted Academy, which trains senior enlisted personnel in management and leadership, are examples of programs affording opportunities to those seeking advancement and professional development. The services also grant opportunities for continuing education in job skills. For example, the Navy may send some personnel to Navy safety school to train them for additional or needed duties. Finally, there are programs that offer skilled enlisted personnel the chance to become officers. For example, the services offer programs that enable selected enlisted personnel the opportunity to earn a Bachelor's degree and an officer commission.

Basic or remedial skills training

Contrary to common practice in the private sector, the services offer several high school completion programs and testing services. For example, many Navy installations offer free high school completion courses both on and off base, and tuition assistance pays 100 percent of associated costs for high school completion. Navy College Learning Centers provide refresher courses in basic and higher level

English, math, and reading as well as test preparation services. In addition, the Defense Activity for Non-Traditional Education Support (DANTES) provides educational testing services—including high school level and college admission examinations, GED tests, aptitude tests and interest inventories, and national certification tests—to military members.

Other private-sector and military training differences

One obvious difference between private-sector and military training is in the type of training offered. Most private-sector companies offer formal training, but training occurs primarily in areas related directly to the work environment, such as orientation training, safety and health training, and workplace-related training. For example, less than 20 percent of workers in establishments with 250 or more employees received basic skills training in 1993 (figure 15).

The delivery of training in the private sector and in the military also differs considerably. In the military, virtually all job training takes place in-house—a structure that evolved at a time when skills needed for military service were unique and had little overlap with skills typically developed for private-sector employment. Although the military has begun to use civilian training services in some areas, the majority of military job training still occurs within the organization. In contrast, much private-sector job training is outsourced. *Training Magazine*'s 2000 Industry Report estimates that 36 percent of dollars budgeted for formal training by U.S. organizations went to outside providers in 2000 [58]. Similarly, the American Society for Training and Development found that 24 percent of firms' training expenditures went to outside companies in 1998 [59].

In addition to being provided by in-house instructors, most military training takes place in a schoolhouse or classroom setting. This differs considerably from training offered in the private sector, the majority of which is delivered through on-the-job training. In fact, over 80 percent of surveyed medium and large employers say they do not offer formal training because offered on-the-job training is sufficient [60].

Another notable difference between the training that takes place in the military and in large, private-sector companies is in its availability.

Government data show that access to training varies considerably among private-sector workers. Although 70 percent of employees in establishments with 50 or more workers had received some formal training in the previous 12 months, college graduates were more likely than high school graduates to receive formal training. Ninety percent of employees with a B.A. or higher degree received formal training in the prescribed period, compared with only 60 percent of those with a high school degree or no degree [60]. In contrast, the military offers both orientation and job skills training to all members. This structure, however, may be associated in part with constraints on the military personnel system that limit lateral entry, creating a completely internal labor market.

Finally, the military education and training system is much more extensive than private-sector education and training programs. For example, the Navy spends an estimated $4 billion annually on training and up to 15 percent of military personnel, at any one time, may be involved in training as students, instructors, or support staff [61]. In the private sector, however, only about 2 percent of payroll is devoted to training [59].

Educational and training programs unique to the military

In addition to educational and training programs that are similar to those offered in the private sector, the military offers a host of other educational programs that have no civilian counterparts, such as financial assistance for full-time college or graduate school study, or the provision of college credits, classes, and instruction.

Financial assistance for full-time college or graduate school study

The types of financial assistance available to servicemembers for full-time college or graduate study can be grouped into three categories: programs that pay for servicemembers' education after they leave active duty, programs that pay educational expenses before servicemembers go on active duty, and programs that pay educational expenses while servicemembers are on active duty.

Initiated in 1985, the Montgomery GI Bill - Active Duty (MGIB) offers former military servicemembers up to 36 months of educational benefits for attendance at a higher learning institution, participation in a

non-college-degree or apprenticeship/on-the-job training program, correspondence training, flight training, or cooperative education courses. Servicemembers in the program incur a pay deduction of $100 monthly during the first 12 months of active duty. Individuals are automatically enrolled in the program unless they specify in writing that they do not wish to participate. In some services, withdrawal must occur within the first 3 working days in uniform; in others, withdrawal must take place within the first 2 weeks. The Department of Veterans Affairs estimates that only half of all servicemembers who are in the program actually use the benefits [62].

In return for these contributions, servicemembers can accrue upwards of $20,000 toward their college educations upon the completion of active duty. Those who serve on active duty for 3 years or more, or 2 years' active duty plus 4 years in the Selected Reserve or National Guard, will receive $650 a month in basic benefits for 36 months. Those who enlist and serve for less than 3 years will receive $528 monthly.[50] Individuals must receive an "honorable" discharge to maintain program eligibility. In addition, each service may provide additional funds for future education. For example, when combined with the MGIB, the Navy College Fund can offer more than $50,000 to those interested in pursuing mission-critical positions. The Army has a similar college fund program.

Other educational programs and services are also available to former servicemembers. For example, military members and their families may also be eligible for an array of educational scholarships offered by a variety of public and private organizations following active duty.

One perceived shortcoming of these educational programs is that they pay for education after the individual leaves the service, meaning that the military does not reap the rewards associated with higher level skills. As Asch, Kilburn, and Klerman have noted, nearly 90 percent of servicemembers enlisting in FY90 used their MGIB benefits after leaving the service [63]. Even an attrite with an honorable discharge can take advantage of the MGIB—acting as an incentive, rather than a disincentive for early separation. As such, the MGIB may

50. www.gibill.va.gov/education/News/ch30Rates110100.htm.

create an incentive to leave the military—particularly in today's strong economy where the payoffs associated with higher levels of educational attainment are large. In contrast, most private-sector programs are designed so that firms are able to reap the rewards of educational investments.

In addition to programs that pay educational costs incurred after serving on active duty, some military programs offer pay or tuition before individuals serve. For example, the Navy College Assistance/Student Headstart Program (CASH) allows qualified individuals to get paid Navy compensation while attending college full-time. Similarly, the Health Services Collegiate Program (HSCP) offers military compensation to those attending dental school full-time and completing a period of obligated service. Under the Navy's Health Professions Scholarship Program (HPSP), individuals attending medical or dental school can receive full tuition plus payment of school fees and expenses, and the cost of books and equipment for several years in exchange for a minimum service commitment. The Financial Assistance program offers medical and dental residents pay in addition to their residency pay in return for a specified Navy service commitment. Some programs, like the Army's Student Loan Repayment Program, will even help qualified individuals repay outstanding college loans.

Finally, some programs allow individuals to attend school full-time while still on active duty. For example, the Air Force's Airman Education Commissioning Program (AECP) and the Navy's Enlisted Commissioning Program offer full-time, active duty enlisted personnel the opportunity to earn Bachelor's degrees in specified "hard-to-fill" fields, thus making them eligible for officer commissions.

College and graduate school credits, classes, and instruction

The military also offers servicemembers the opportunity to pursue a college education through college and graduate school credits, classes, and instruction. Across all the services, the Military Evaluations Program of the American Council on Education allows servicemembers to receive college credit for service school courses and most enlisted occupations. In the Navy and Marine Corps, the Sailor/Marine American Council on Education Registry Transcript

(SMART) gives Sailors a transcript that can allow them to get college credit for military occupational experience and training. All active duty Sailors and Marines are eligible for the free program. DANTES also provides credit-by-examination testing services.

Undergraduate and graduate class work is available to servicemembers through several military programs. Started in 1972, the Servicemembers' Opportunity Colleges (SOCs) make up a consortium of over 1,400 colleges and universities that provides educational opportunities to servicemembers and their families. Designed so that servicemembers who frequently move can complete college degrees, it allows for the easy transfer of credits, recognizes nontraditional learning, and minimizes residency requirements. Classes are taught worldwide through local or distance learning. The SOC consortium coordinates Associate and Bachelor's degrees in a variety of curriculum areas for the Army (SOCAD), Navy (SOCNAV), and Marine Corps (SOCMAR).[51] DANTES also runs a DOD-wide Distance Learning Program, which provides nontraditional education programs to servicemembers when classroom courses are unavailable or prohibitively inconvenient.[52]

For servicemembers at sea, the Navy College Program for Afloat College Education (NCPACE) provides academic skills and college (undergraduate and graduate) courses through regionally accredited colleges and universities to Sailors. Courses are taught either remotely via computer-based technology, satellite, or the Internet, or by an onboard instructor. The program is free, except for the cost of textbooks. All courses are from institutions with SOCNAV affiliation so that members can transfer credits toward degree completion. Currently the NCPACE also allows Marines to participate if space is available. The Marines offer a similar program called Marine Corps Afloat.

The services may also contract with local colleges and universities for the provision of onbase classes. For example, the Navy allows outside

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51. See www.soc.aascu.org for more information.

52. For more information, see voled.doded.mil.

colleges and universities to offer accelerated vocational and technical, Associate, Bachelor, and graduate level education to onbase personnel during evenings and weekends.

In addition to offered class work, the services also offer military members undergraduate and graduate instruction through an array of undergraduate and graduate institutions. For example, the Community College of the Air Force (CCAF) is an accredited, degree-granting college that allows enlisted airmen and NCOs to earn Associate degrees in Applied Science. Through the Air Force Institute of Technology, students can learn advanced aerospace technology and engineering skills. Similarly, the Uniformed Services University of the Health Sciences provides graduate instruction in medicine, nursing, and the biomedical sciences.

Private-sector work/life programs

Work/life programs, such as child care, elder care, adoption benefits, employee assistance and wellness programs, and workplace flexibility measures, are a growing part of today's private-sector compensation packages.

Private-sector child care

Coincident with increasing levels of educational attainment, women—particularly those with children—have increased their work effort dramatically. Labor force participation rates for married women with children have jumped from 28 percent in 1960 to over 70 percent today. These trends have made child care an increasingly popular component of private-sector compensation packages.

The HayGroup reports that 84 percent of medium and large companies offer child care services, up from 55 percent in 1990 [20]. Hewitt Associates finds that 90 percent of large companies offer some type of child care assistance today, up from 84 percent in 1994 [21].

Although a majority of firms offer some form of child care assistance, only a small share offer on- or near-site care. The National Business Work-Life Study (BWLS) found that only 9 percent of companies with 100 or more employees offered child care services at or near the worksite in 1998 [39]. A recent Hewitt Associates survey finds that

about 9 percent of large companies offer on- or near-site child care today [21].

Few firms offer vacation, holiday, camp, or before- or after-school care. A 1998 survey found that only 6 percent of firms with 100 or more employees offered care for school-age children on vacation [39]. Data from Hewitt Associates show that 3 percent of large, private-sector firms offer vacation care, 3 percent offer school holiday care, and 3 percent offer camp programs. Finally, only about 4 percent of large, private-sector firms offer onsite or community-based before- or after-school care [21].

Similarly, relatively few firms provide child care for unanticipated circumstances. The BWLS reported that 4 percent of all firms offered backup or emergency child care and 5 percent offered sick child care in 1998 [39]. Hewitt Associates finds that 12 percent of large companies offer sick or emergency child care programs today [21].

Instead of direct provision, most private-sector firms offer resource and referral services or financial offsets. The BWLS found that 36 percent of companies with 100 or more employees offered access to child-care information in 1998, and Hewitt Associates reports that 38 percent of large companies currently provide such information services [21, 39]. Most companies providing this service contracted with an outside provider, whereas only 17 percent provided referral services in-house [21]. Half of all companies with 100 or more employees provided dependent care assistance plans that allowed employees to pay for child care with pretax dollars in 1998, and an additional 5 percent offered vouchers or subsidies for child care [39]. Among large companies, 79 percent have created dependent care spending accounts to help employees cover child care expenses, 9 percent have arranged discounts with local child care providers, 2 percent offer voucher programs, and 2 percent provide direct financial support to outside child care facilities [21].

Private-sector elder care

In addition to balancing the dual demands of work and parenthood, many private-sector workers are also charged with caring for elderly relatives. Better health care and the less manual nature of work have increased life expectancies considerably over time, resulting in a larger elderly population. The Department of Labor estimates that

30 percent of the workforce has some responsibility for an elderly relative and 54 percent of Americans believe that they will have to care for an elderly relative over the next 10 years [64]. Time spent on such activities can be considerable; a 1997 survey estimated that people providing informal care to elderly friends or family members spent an average of almost 18 hours a week on such activities. Furthermore, more than half of employed caregivers had to make changes at work to better accommodate their elder care responsibilities [65].

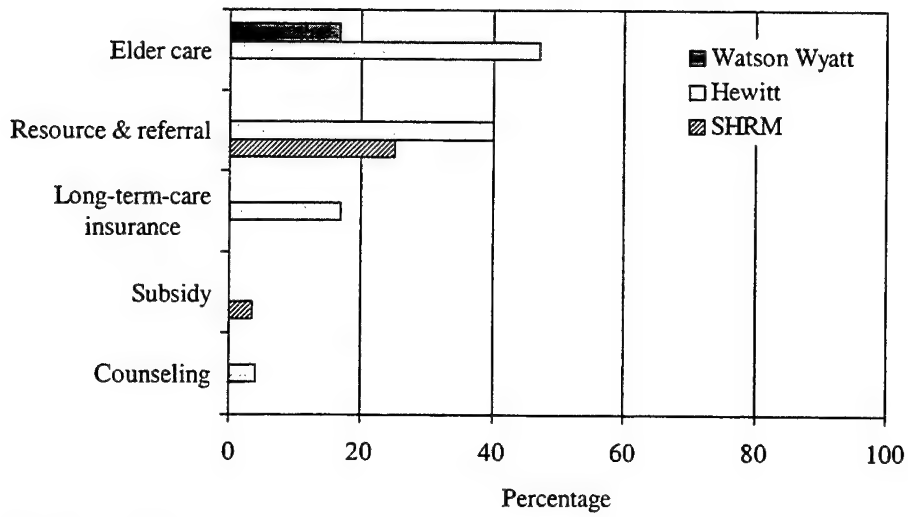
In response to these changes, more private-sector companies are offering elder care services. A 1998 survey found that 23 percent of companies with 100 or more employees offered elder care resource and referral services, 5 percent offered direct financial support for local elder care programs, and 9 percent offered long-term-care insurance for family members [39]. Hewitt Associates found that 47 percent of large, private-sector companies now offer elder care programs, up from 24 percent in 1994 [21]. Watson Wyatt reports that 16.9 percent of for-profit firms with over 2,500 employees offer such programs [23].[53] Resource and referral services for elder care were offered by 25 to 40 percent of all large companies. Long-term-care insurance for dependent family members was offered by 17 percent of all large companies, 4 percent offered elder care subsidies, and another 4 percent offered elder care counseling services (figure 16).

Private-sector adoption benefits

Adoption benefits—which usually include financial offsets for incurred expenses—are rarely offered in the private sector, but their availability has been increasing over time. A recent HayGroup survey finds that 17 percent of medium to large firms offer adoption benefits today, up from 8 percent in 1990. According to SHRM, 11 percent of employers of all sizes offer these benefits today. As figure 17 shows, there is some evidence that these benefits are more prevalent among larger firms. Data from SHRM and Hewitt Associates show that 30 to 31 percent of large companies offer adoption benefits today. The average maximum reimbursement for adoption costs is $3,100, but dollar maximums vary considerably (figure 18).

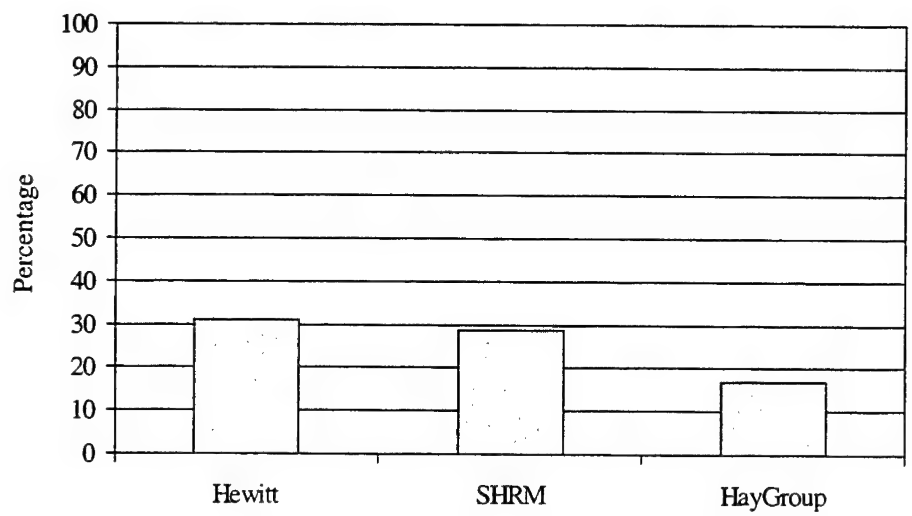
53. Differences in Watson Wyatt and Hewitt Associates estimates may stem from differences in sample selection, question forms, or definitions.

Figure 16. Private-sector elder care programs[a]



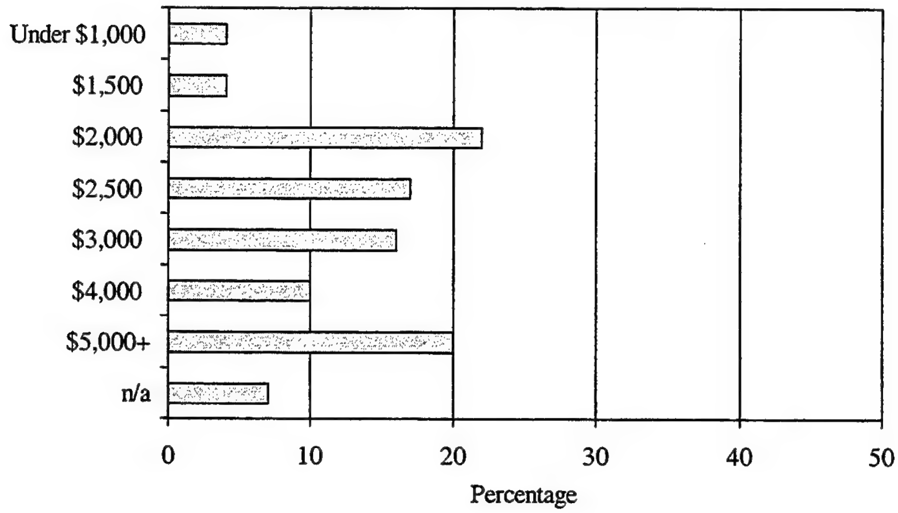
a. Sources: [21, 22, and 23].

Figure 17. Private-sector adoption benefits[a]



a. Sources: [20, 21, and 22].

Figure 18. Private-sector adoption assistance dollar maximums[a]



a. Source: [21].

Private-sector Employee Assistance Programs

An outgrowth of alcohol abuse programs begun in the 1940s, private-sector Employee Assistance Programs (EAPs) are designed to help workers cope with a variety of human relations problems, including substance abuse, mental or emotional health problems, work family conflicts, financial or legal problems, or other personal concerns that affect job performance. They provide confidential assessment, referral, counseling, and training services to employees and their families at no or low cost. Treatment of substance abuse or mental health problems usually occurs through employer health insurance programs.

A 1998 survey found that 56 percent of companies with 100 or more employees offered EAPs [39]. Among large, private-sector companies, a recent Watson Wyatt survey reports that 80.3 percent of for-profit companies with 2,500 or more employees offer such programs today [23]. Finally, a HayGroup survey finds that 78 percent of medium and large companies offer EAPs today, up from 61 percent in 1990 [20].

If not part of a firm's EAP, some types of services—like financial and legal services—are relatively rare. An estimated 27 percent of large, private-sector firms offer legal assistance, and 17 to 37 percent offer financial planning services [21, 22, 23]. SHRM reports that 28.8 percent of large, private-sector companies also may offer loans and/or emergency assistance to employees in some circumstances [22].

Private-sector flexible work arrangements

The last type of work/life program that is particularly popular in the private sector today is the availability of flexible work arrangements, including flexible work schedules, telecommuting, job sharing, compressed work schedules, and various other flexibility programs.

This trend has been prompted in part by changes in women's work hours over time. For example, work hours for women in married-couple families with children increased by 93 percent between 1969 and 1996. Women with children under age 5 increased their work hours by 129 percent over this period [66]. Over half of all prime-age women today work year-round, full-time. And almost one-third of women with children under age 3 work year-round, full-time today, up from only 7 percent in 1969 [67].

As a result, flexible scheduling, which allows workers to vary the distribution of work hours, has become increasingly prevalent among private-sector companies in recent years. Survey data show that 66 percent of all companies have flexible work schedules today, up from 22 percent in 1989 [28]. Among large, private-sector companies, flexible scheduling is now offered by 57 to 75 percent of large companies (figure 19).

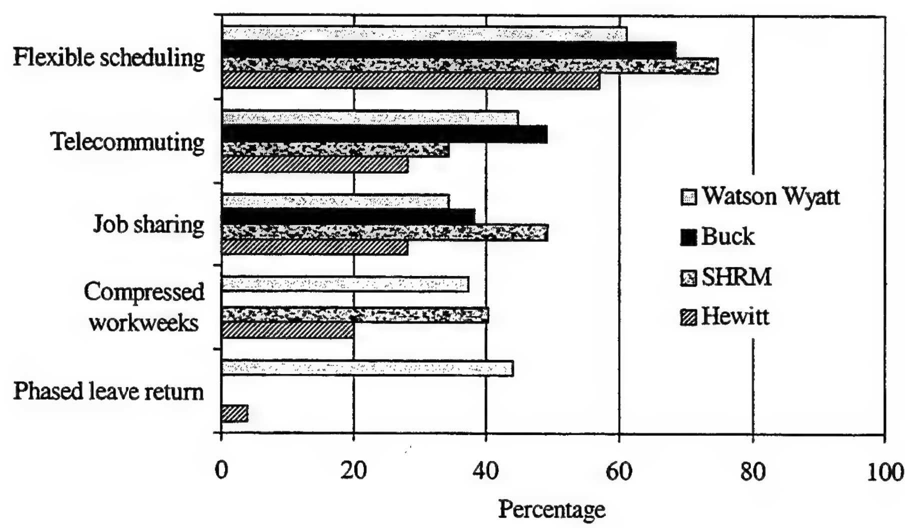
Telecommuting, which has been greatly facilitated by technological advances, is also on the rise. William M. Mercer reports that 39 percent of all companies offer telecommuting today, up from 14 percent in 1995 [28].

As figure 19 shows, telecommuting offerings range between 28 and 49 percent among large, private-sector companies.

Other flexible work arrangements, such as job sharing, compressed work schedules, and phased return from leave, are less common. A

William M. Mercer survey finds that 33 percent of all companies have job sharing, and the Families and Work Institute sets that share at 37 percent [28, 39]. As figure 19 shows, among large, private-sector companies, job share offerings range between 28 and 49 percent. Compressed work schedules—schedules that give workers the option to work more hours per day but fewer days within a 1- or 2-week period—are currently used by 20 to 40 percent of large, private-sector companies. Finally, estimates on employees' access to phased return from leave vary considerably. The Families and Work Institute finds that 81 percent of all firms allow workers to gradually return to work following childbirth or adoption [39]. Estimates of the share of large, private-sector companies offering phased return from leave range between 4 and 44 percent.

Figure 19. Private-sector flexible work arrangements[a]



a. Sources: [19, 21, 22, and 23].

A comparison of private-sector and military work/life programs

Private-sector and military child care

Greater workforce participation has also increased work and family demands on military personnel. Although women made up only

about 14 percent of the active military force in 1999, more than 630,000 servicemembers—46 percent of the active duty force—had children. In addition, more servicemembers today have two working spouses, and there is a growing share of single-parent servicemembers. Over 6 percent of military members are single parents today, up from 3.7 percent in 1989. DoD estimates that about half of all military families today have one or more children below school age and both parents are working in 60 percent of these families [68].

Unlike most large, private-sector firms, the military has an extensive child care system that cares for about 200,000 children between the ages of 6 weeks and 12 years on a daily basis [69]. The Office of Children and Youth within OSD develops policy for military child development programs. Current programs have four components:

- Child Development Centers (CDCs)
- In-Home Family Child Care Homes (FCCs)
- School-Age Care Programs (SACs)
- Resource and Referral Programs (R&Rs).

About $352 million in appropriated funds was obligated in FY 2000 for DoD's child development program. Approximately 73 percent of this amount went to CDCs, 12 percent to FCCs, 11 percent to SACs, and 4 percent to R&Rs [70].

Private-sector and military child care programs differ most significantly in terms of their provision of on- or near-site care. Although only about 10 percent of large, private-sector companies offer on- or near-site child care, the military currently operates about 800 CDCs. The Military Child Care Act of 1989 determines funding for CDCs, fees that are based on both family income and government matches, and child care subsidies [71]. Of children participating in the military child care program, 37 percent are in CDCs [70].

Not only does the military provide extensive child care services, it also heavily subsidizes the associated costs. Servicemembers' child care costs currently range from $40 to $116 per child per week, depending on total family income [72]. Because the government shares in

50 percent of the costs, officials estimate that the average weekly fee paid by military families is 25 percent lower than that paid by civilian families for comparable center-based care [69].

Although the Clinton Administration and others have heralded the military child care system for its quality and scope, care through CDCs is quite costly to provide. In fact, a 1999 GAO report found that DoD-provided child care cost 20 percent more per child than comparable civilian center-based care—7 percent more after adjusting for demographic differences in the served population. Higher costs were attributed primarily to higher staff wages and benefits [73]. Because military spouses staff most military child care operations, higher military child care wages amount to a considerable spousal employment subsidy.[54]

In fact, the correct basis for child care cost comparisons may not be between civilian and military child care centers, but between child care centers and care provided through other means. For example, DoD officials estimate that the annual appropriated-fund share of infant care costs in CDCs is about $7,000 per child, compared to about $2,400 for subsidized home-based care [68]. Because of this and other considerations, there have been some recent efforts within the services to shift infant care from CDCs to FCCs.

Certified providers living in government-owned or leased housing make up the FCC network of over 9,700 providers, serving 32 percent of children participating in the military child care program [70]. Unlike most private-sector child care programs, FCC carers provide night, weekend, and unusual hours care, as well as care for sick children or those with special needs. Providers are subject to the same inspection, background check, and training requirements as CDC workers, but are independent contractors who set their own fees directly with parents.[55]

54. According to a 1995 Department of Defense report, 75 percent of the child care workforce and all FCC providers are military spouses. See [74].

55. Those receiving cash subsidies face some restrictions on negotiated rates.

Direct cash subsidies can be used to make up the difference between CDC and FCC costs.[56] The use of direct cash subsidies, which has been increasing over time, is typically at the discretion of the installation commander [70]. As Bernard Rostker has noted, the lack of subsidies for all FCCs has created long waiting lists for CDCs, all of which are subsidized. Greater use of direct cash FCC subsidies would help to meet servicemembers' needs at a lower cost [68].

It may be appropriate to question whether the military should directly provide center-based child care at all. In addition to their higher costs, military CDCs are more restrictive than FCCs in their hours of operation. Contrary to what one might assume, most CDCs are open from 6 a.m. to 6:30 p.m. Monday through Friday—not unlike the hours of civilian providers [73]. Although many parents historically believed that CDCs offered children more learning opportunities than FCCs, recent advertising campaigns have attempted to counter that belief.[57] Although these characteristics would seem to indicate the need for a move away from CDCs, 208 new CDCs were constructed between 1985 and 1998 [70].

The military also differs from the private sector in its use of outside child care services. Although child care resource and referral services are used extensively within large, private-sector companies, only about 6 percent of military child care need is served through R&Rs [70]. Greater use of outside provision may be worth considering.

The military child care system also differs from common practice in the private sector because it does not offer servicemembers direct financial offsets for child care expenses. Almost 80 percent of large, private-sector companies currently offer dependent care spending accounts to help employees pay for child care with pretax dollars. In the military, offsets are in the form of subsidies to and cost shares with CDC and FCC providers, not dollars that can be used for any provider. As Linda K. Smith, director of DoD's Office of Family Policy, once noted, "We

56. The Air Force does not authorize subsidies. See [75].

57. For example, the Navy renamed FCCs "Navy Child Development Homes" and has worked to create a professional image of these providers. See [68].

give money to programs rather than to parents." Although this design was originally intended to ensure the quality of care and boost wages for child care providers, it may be worth reconsidering in today's strong economic environment where more child care options are available [69].

Unlike most large, private-sector firms, the military provides extensive before- and after-school, holiday, and vacation care, as well as youth programs. SACs care for children age 6 to 12 before and after school, during holidays, and during summer vacations. Services can be provided in CDCs, in youth centers, or in offbase institutions. Military youth programs are provided at 474 youth facilities. Offered programs, which are targeted toward teens, include before- and after-school programs, summer camps, sports, recreation activities, classes, teen centers, and youth sponsorship. Of children participating in the military child care program, about one-quarter are in SACs or youth programs [70].

Private-sector and military elder care

Servicemembers in today's military often must care for elderly relatives. Some estimate that servicemembers currently provide some level of care or support for almost 14,000 elderly relatives. In 1992, 6.5 percent of military families reported claiming an elderly relative as a dependent, and 8.2 percent reported having some responsibility for an elderly relative [76].

Like most large, private-sector companies providing elder care services, the military provides servicemembers with elder care information resource and referral services through its family centers (described below.) These centers may also offer elder care workshops. Unlike in most large, private-sector firms, military chaplains can offer counseling services to those dealing with the care of an elderly family member. Although the military offers no subsidies or direct support for elder care programs, long-term care for family members may be available through TRICARE.

Private-sector and military adoption benefits

Although financial offsets for adoption expenses are relatively rare among large, private-sector companies, the military offers adoption

reimbursements. Established by the National Defense Authorization Act for Fiscal Years 1992 and 1993, the military reimburses servicemembers for qualified infant, intercountry, or special-needs adoption expenses. Similar to the average maximum reimbursement in the private sector, expenses are capped at $2,000 per child (or a maximum amount of $5,000 per year). Qualified expenses can include agency, placement, legal, and counseling fees, some pre-adoptive child care expenses, and some medical expenses. Children must be under 18 and not the biological offspring of the servicemember. Both married and single servicemembers can use the program, but all members must have served at least 180 days of active duty to be eligible. Disabled adopted children also may receive up to $1,000 a month through the military's Program for Persons with Disabilities.[58]

Private-sector and military Employee Assistance Programs

In the military, most EAP services are offered through family centers, which are located on military installations with 500 or more military members.[59] Like private-sector EAPs, these centers assist military personnel and their families by providing a variety of support services. Some offered services are similar to those found in private-sector EAPs, including information and referral services on such issues as elder care, child care, and adoption. Also available through the centers are personal financial management services, and counseling and support group services, including stress management, crisis assistance, domestic violence prevention and education, sexual assault intervention, and parenting workshops. Other offered services differ from those available in the private sector. Military family centers also provide relocation assistance, life-skills education, career development and employment assistance, transition assistance programs, and pre-deployment advice services. In addition, the Army and Marine family centers offer Family Team Building programs that help to train

58. www.pueblo.gsa.gov/cic_text/children/adoption/helpf.html

59. Each service has a different name for its family centers. The Army has 95 Community Service Centers, the Air Force has 84 Family Support Centers, and the Navy and Marine Corps have 65 and 18 Family Service Centers, respectively. (Source: unpublished data from the Military Family Resource Center as of year end of FY00.)

spouses about military life. Family centers can also serve as a liaison between servicemembers and local, state, or federal assistance programs, schools, churches, law enforcement, and recreation organizations.

Some EAP services are located off base, for the convenience of military personnel in alternative locations. For example, each Navy command has a Drug and Alcohol Program Advisor (DAPA) who manages drug and alcohol abuse prevention programs and can provide counseling, advice, and referral services. As is typically the case in the private sector, treatment for substance abuse and mental illness is provided through the military's TRICARE health benefit. Those successfully completing treatment can be returned to duty.[60] Similarly, the Navy has recently launched a $6 million Personal Financial Management program that will begin training boot camp graduates, academy graduates, junior Sailors, spouses, and command financial specialists in personal financial management in late FY01. These services will be in addition to the financial services currently available to military personnel through the family centers [77]. Finally, the Navy Ombudsman and Marine Corps Key Volunteers programs counsel servicemembers and provide resource and information resources at the unit level [46].

Outside work/family services

Unlike in the private sector, military members have access to an array of outside private organizations that offer assistance and services to military personnel. The Navy-Marine Corps Relief Society (NMCRS), Army Emergency Relief (AER), and Air Force Aid Society (AFAS) are private, nonprofit, charitable organizations that provide emergency interest-free loans and grants, interest-free loans and needs-based scholarships for education, and other needed assistance to active-duty and retired servicemembers and their families. Organization representatives are usually available in the family centers. The scope of the relief societies' activities can be quite extensive. For example, NMCRS

60. Although drug abuse treatment is technically also covered under these benefits, the military's zero tolerance policy has been interpreted as requiring the immediate separation of those military members who abuse drugs.

provided $36.5 million in loans and grants and $6.6 million in educational programs in 1999.[61] The AER—which has helped more than 2.7 million soldiers and their families since 1942—issued $33.7 million in loans, gave $3.2 million in grants, and approved $1.8 million in scholarships in 1999.[62] AFAS reports that over 22,000 Air Force members and their families were provided with more than $13 million in emergency assistance in 1999.[63] All organizations are funded through individual donations.

In addition to loans, grants, and scholarships, several of these organizations offer some addition services. For example, the NMCRS, which operates nearly 250 offices ashore and afloat, sponsors such relief services as visiting nurse programs, thrift shops, budget counseling and caseworker services, food lockers, and the provision of infant layettes.[64] The AFAS Funeral Grant program grants active-duty members up to $3,500 to defray the costs of burying a dependent.[65] Other special AFAS programs include the "Give Parents a Break" program, Child Care for Volunteers, Respite Care, Nursing Mom's Program, Youth Employment Skills Program, Car Care Because We Care Program, Bundles for Babies, Child Care for PCS Program, and the Phone Home Program.[66]

The Navy Mutual Aid Association (NMAA) and the Army and Air Force Mutual Aid Association (AAFMAA) are mutual, nonprofit, tax-exempt voluntary membership associations serving current and former sea service Navy and Marine Corps personnel, active-duty and retired Army and Air Force personnel, and their families. The associations provide low-cost life insurance, information on and assistance with obtaining available federal benefits, representation to assist in appeals or the settlement of an insurance claim, financial services,

61. www.nmcrs.org/ar-atglance.html

62. www.aerhq.org/snapshot.htm

63. www.afas.org/q&a.htm#1

64. www.nmcrs.org/about.html

65. www.afas.org/q&a.htm#1

66. www.afas.org/community.htm

and financial planning. Since 1880, NMAA has provided more the $400 million in benefits. With the exception of life insurance, all services are free to association members.[67]

In addition to the services provided by these organizations, armed forces personnel and their families also have access to a wide array of other formal and informal groups and organizations designed to support military families.[68] For example, the Navy Wives Club of America has worldwide chapters open to the spouses of enlisted personnel and awards scholarships to children of enlisted servicemembers every year. Similarly, the Fleet Reserve Association (FRA) assists members with their careers and offers such programs as health care supplements, life and auto insurance, college scholarships, student loans, discounts, and disaster relief. Organizations like the American Red Cross also assist servicemembers and their families by providing emergency financial assistance, information and referral services, and health, safety, and lifestyle courses.

Private-sector and military legal assistance

Although legal assistance outside an EAP is relatively rare among large, private-sector companies, each of the military services offers confidential legal assistance to active duty military members. When resources are available, services are also offered to dependents, retirees and their dependents, eligible survivors, and eligible reservists. Legal services, which include will preparation, power of attorney preparation, notary public services, and legal advice on domestic relations, contract, civil rights, or tax problems, are provided on base by military judge advocates at no cost.[69] Dispute-resolution programs, such as arbitration and mediation, and the Expanded Legal Assistance Program, which provides in-court representation on civil and minor criminal charges to some active servicemembers who cannot afford legal representation, have recently been added to some legal assistance offices.

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67. www.nmaa.org/

68. See www.militarywives.com, www.navywives.com, www.armywives.com, www.airforcewives.com, and www.militaryhusbands.com to name a few.

69. The Marines do not have a JAG corps but may use the services of Navy lawyers.

Access to these services could be improved in two ways. Unlike legal services offered through private-sector EAPs, most legal assistance offices are located separately from the family centers. For example, Navy legal assistance offices are located at naval legal service offices and detachments. If a military installation is too small to provide onsite legal services, servicemembers can use the facilities at another nearby installation. Similar to the "one-stop shopping" approach that has shaped government-provided job training and placement services, the military's EAP services could prove more convenient through the collocation of services. If collocation is not feasible, family centers could be used more broadly as clearinghouses for all types of practical information pertinent to the well-being of military members and their families.[70]

Military legal assistance services also are subject to binding financial constraints. While programs have been legislatively authorized, they are not directly funded.[71] As a result, access to such services is often unavailable.

Private-sector and military flexible work arrangements

Although civilian and military DoD employees have access to many flexible work arrangements, such as flexible and compressed work schedules, job sharing, and telecommuting, flexibility for active duty servicemembers usually is at the discretion of the command. As such, it may be more feasible in some environments (shore duty assignments, for example) than in others (sea duty assignments). The military is also investigating ways to reduce PERSTEMPO—the length of time that military personnel spend away from home on deployments. Military jobs should be evaluated to determine the potential to use existing technologies to introduce flexibility into operations or move some functions from ship to shore, for example. Because of the prevalence of flexible work arrangements in the private sector and the demographic changes affecting both workers and servicemembers today, measures to add additional flexibility to servicemember's work

70. The Military Family Resource Center maintains research materials on military family and quality-of-life programs.

71. www.lifelines4qol.org/services/legal/default.asp

schedules without compromising readiness should be investigated and implemented whenever possible.

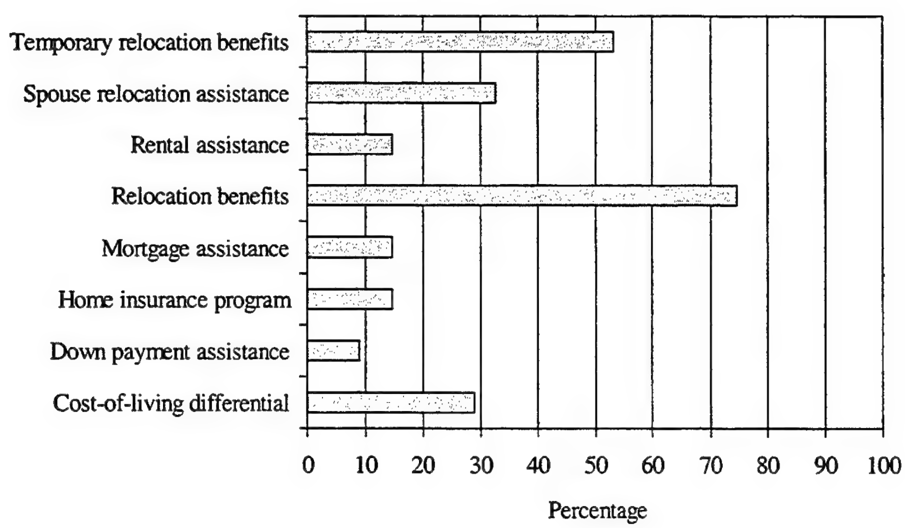
Other private-sector and military offerings

In addition to the incentive pay and benefit offerings described thus far, both large, private-sector companies and the military offer an array of other benefits. The value of these offerings can, in many cases, be quite significant.

Housing

Some large, private-sector firms offer housing benefits, but virtually all of these benefits are in the form of financial offsets or loans, not the direct provision of housing. As figure 20 shows, the most prevalent forms of housing benefit among firms with 2,500 or more employees are temporary and permanent relocation benefits. About 32 percent of large firms offer spouse relocation assistance, and 30 percent offer cost-of-living differentials. Finally, a relatively small share of large companies offer housing benefits, such as rental assistance, mortgage assistance, down payment assistance, or home insurance.

Figure 20. Private-sector housing benefits[a]



a. Source: [22].

In the military, housing and relocation benefits are universal. Servicemembers receive either military housing or basic allowances for housing (BAH) that are not subject to federal taxation.[72] BAH amounts vary depending on rank, length of service, dependency status, and location. This puts the military in the unique position of having a significant portion of pay dependent on dependency status. Unlike in the private sector, the military also provides some housing directly. Individuals in barracks housing receive a partial BAH ranging from $6.90 to $50.70 per month. DoD estimates that the typical servicemember now pays about 18.8 percent of housing costs, and it plans to eliminate out-of-pocket housing costs completely by 2005 [46].

Servicemembers may also be eligible for home loan guarantees offered by the Department of Veterans' Affairs, which can be used to purchase a house, townhouse, condominium, or mobile home, to refinance an existing mortgage, or to improve, repair, or alter a home. Required down payments are minimal, but members may be required to pay additional funding fees.

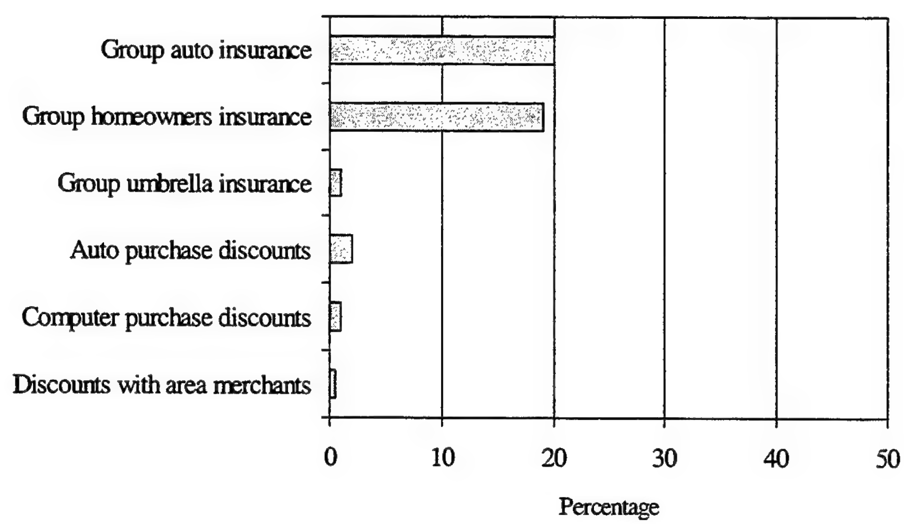
Finally, servicemembers can get relocation assistance, including education and training, information resources, and counseling services, and spousal employment assistance, through military family centers. Transportation is provided to individuals and their household items making a PCS move, either directly or through a monetary allowance. The Temporary Lodging Allowance and the Temporary Lodging Expense offset the costs of temporary lodging and meals. There are also a variety of allowances and advances available to servicemembers to help offset moving costs. For example, the Dislocation Allowance, a tax-free allowance that offsets miscellaneous moving costs, is paid once per PCS move and per diem allowances are available. Servicemembers can also receive interest-free advances on their basic pay, BAH, or overseas housing allowance to assist them in meeting expenses.

72. In 1999, 56 percent of all active-duty military members living in CONUS locations lived off base and 44 percent lived on base [76].

Discount programs

In large, private-sector companies, discount programs are relatively rare. According to Hewitt Associates, 34 percent of large, private-sector firms offer group-purchasing or group discounted purchase options to employees. As figure 21 shows, these offerings range from group auto insurance to computer purchase discounts. Employees may also be offered discounts on company services, a practice followed by almost half of surveyed large companies [21].

Figure 21. Private-sector group purchasing programs[a]



a. Source: [21].

In contrast, the military has a network of military exchanges and commissaries to serve military members. Military exchanges sell discounted and tax-free department store items. Army and Air Force exchanges (referred to as PXs or BXs) are run by the Army and Air Force Exchange System (AAFES), which currently operates 10,878 facilities worldwide including 1,423 retail facilities and 218 military clothing stores.[73] Navy Exchanges (Ships' stores and NEXs) are

73. www.aafes.com/pa/history_page.htm

operated by the Navy Exchange Service Command. There are currently 191 stores on commissioned ships and 113 stores on naval installations.[74] Finally, Marine Corps Exchanges are currently in 16 locations and generate over $500 million in annual sales.[75] Exchanges not only benefit military personnel through discounts, but the profits generally are used to finance MWR programs. For example, 70 percent of the profits generated within the Navy Exchange system go toward MWR programs.[76]

Military commissaries are discounted supermarkets, with over 290 locations of service installations worldwide. In FY99, sales topped $4.9 billion. Purchases, which are priced 25 to 30 percent below retail, are not subject to sales tax, but are subject to some surcharges [46].

Food and clothing programs

Few private-sector firms offer food or clothing benefit programs. When provided, such services typically entail some cost to employees. Data on the prevalence of such programs is fairly limited; SHRM finds that 4 percent of large firms offer already prepared take-home meals, and Hewitt Associates sets this figure at 6 percent [21, 22]. In addition, 57 percent of large firms offer food services/subsidized cafeterias [22].

In addition to discounts on food and clothing purchases offered by commissaries and exchanges, the military also offers allowances for or the direct provision of food and clothing—a practice virtually nonexistent in the private sector. The military's basic allowance for subsistence (BAS) essentially gives servicemembers tax-free money for food. The amount available is not based on rank, but on location and facilities available. For servicemembers who are married, live off base, or are on leave, the BAS amount ranges between $158.83 and $339.60 per month. Enlisted members typically receive larger BAS than do officers. Servicemembers living in barracks with government dining halls can receive a partial BAS of $25.50 per month [46].

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74. www.navy-nex.com/site_map/index.html

75. www.usmc-mccs.org/

76. www.navy-nex.com/exchange/index.html

Although most private-sector workers must furnish their own work clothes, the military grants initial clothing allowances and annual allowances to enlisted personnel to cover replacement costs. Servicemembers may also receive a one-time allowance for the purchase of civilian clothing when an assignment requires it.

Fitness and recreation programs

Fitness and recreation programs are fairly limited in the private sector. Data from SHRM show that 36 percent of large firms offer onsite fitness centers, 29 percent offer fitness/gym subsidies, and 42 percent have organization-sponsored sports teams [22]. Hewitt Associates reports that only 8 percent of large firms offer entertainment discounts and ticket purchases [21].

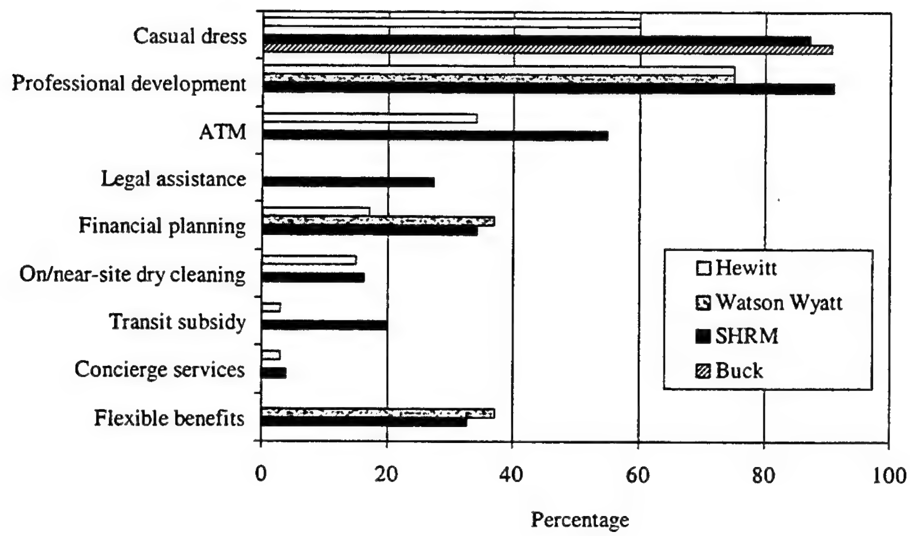
In the military, Morale, Welfare, and Recreation (MWR) programs that are designed to improve the quality of service life are quite extensive. MWR programs include fitness centers and gymnasiums, recreation centers, libraries, youth centers, sports, outdoor activities, arts and crafts, and other programs and are funded through taxes. Many recreational programs also offer free or discounted tickets to theaters, sporting events, and historical and recreational locations. Most services are free, but commercial enterprises, such as golf courses, clubs, and bowling centers, impose their own fees and charges.[77]

Other benefits and services

Finally, both the private sector and the military offer a range of other miscellaneous benefits and services. Casual dress policies are most prevalent in large, private-sector companies today, offered by 60 to 91 percent of firms (figure 22). Hewitt Associates estimates that 52 percent of large companies offer some onsite personal services. Some services and conveniences are popular, whereas others are less prevalent. Although as much as 55 percent of large firms currently offer ATM services, under 20 percent offer such things as on- or near- site dry cleaning, transit subsidies, or concierge services. Lastly, between 33 and 37 percent of large firms now offer "flexible benefits"—allowing workers to pick and choose from an array of health, retirement, and leave benefits to design a benefits package that best suits their individual needs.

77. dticaw.dtic.mil/prhome/commprog.html

Figure 22. Other private-sector benefits[a]



a. Sources: [19, 21, 22, and 23].

The military offers servicemembers several unique perquisites in the form of transportation benefits and tax advantage. Servicemembers and their families can fly at little or no cost on government or commercial aircraft if space is available. There are no reservations, and access is prioritized based on the circumstances of the travel. Military members also receive some benefits through special tax advantage. For example, military allowances are generally tax-exempt and servicemembers only have to pay personal property taxes to their state of legal residence. Because servicemembers do not have to reside where they are stationed, many choose to reside in low-tax states [46].

An examination of specific private-sector companies' incentive pay and benefit offerings

The information presented thus far can be used to assess the prevalence of various incentive pay and benefit programs within large, private-sector companies. Yet there is also considerable interest in the offerings of particular firms, specifically those firms in which former military personnel—particularly those in technical ratings—gain employment. After identifying these companies, it is useful to examine the incentive pay and benefit packages that they offer to nonexempt, hourly paid workers. This information can then be used as a benchmark against which military incentive pay and benefit offerings can be evaluated.

In the survey described above, respondents were asked to name private-sector companies at which servicemembers leaving the Navy found subsequent employment. Detailers in the IT and FC ratings were also asked to name private-sector companies in which servicemembers' choosing not to reenlist obtained employment. Generally speaking, named private-sector companies could be grouped into three broad categories (see table 5):

1. Government contracting firms
2. Technology-based firms
3. Service-sector firms.[78]

Because we are particularly interested in the behavior of personnel in technical fields, we used survey data to examine the occupations entered by technically rated Sailors who were leaving the Navy. Although sample sizes are small, the survey data lend support to the

78. Several respondents identified government agencies, but these responses were omitted because they did not qualify as private-sector organizations.

Navy rating/civilian occupation crosswalk developed in [4]. For example, Sailors in the AT, ET, and FC ratings generally entered occupations in the technical or mechanics, installers, and repairers occupational groupings. FC detailers confirmed this trend in one-on-one interviews.

Table 5. Companies where separating Sailors obtained employment[a]

Government contracting firms	Technology-based firms	Service-sector firms
Newport News Shipbuilding	Lucent Technologies	UPS
Logicon	IBM	McDonald's
Sikorsky	Microsoft	Applebee's
Unidyne	Intel	Rent-A-Center

a. Source: CNA survey described in the appendix.

We then chose to closely examine the incentive pay and benefit offerings of several specified firms to determine whether their offerings were atypical of other large, private-sector firms. We selected one company from each of the groupings specified above:

1. Newport News Shipbuilding
2. Lucent Technologies, Inc.
3. United Parcel Service.

Available information on these companies' incentive pay and benefit offerings follows.[79]

79. The author acknowledges the generous assistance of NNS, Lucent, and UPS company representatives in providing information in this section. The majority of this analysis was completed in December 2000, so changes may have occurred to these companies' benefit offerings in the intervening time period. These data, therefore, should be viewed as snapshots of the companies' offerings, rather than as definitive sources of benefits information.

Newport News Shipbuilding

Newport News Shipbuilding (NNS), the second largest U.S. shipbuilding company, builds, maintains, refuels, and repairs nuclear aircraft carriers and submarines. In FY00, the company reported $2.1 billion in sales and had a staff of 17,000 employees.[80]

NNS is a company of particular interest because it is a major Navy contractor, with the Navy accounting for approximately 98 percent of the company's 1999 revenues.[81] As such, it hires individuals with skills very similar to those required of Navy personnel. In fact, a review of the company's job listings found that several listed jobs required or recommended the types of skills and experience only obtainable through naval service (see table 6).

Table 6. Newport News Shipbuilding job listings

Job title	Description
Associate Engineer, Nuclear Engineering	The candidate should possess a BS degree in Naval Architecture or higher. The candidate should have 3-5 years' engineering experience with weight engineering experience preferred. Military service is desired.
Engineer, Submarine Nuclear Engineering	Requires a BSEE degree with experience in the design of power distribution and/or instrumentation systems. Responsibilities will include technical reviews, resolution of engineering problems, and development of systems diagrams and work packages. Strong oral/written communications and computer skills are required. Navy nuclear experience a plus.
Engineer, Nuclear Engineering	The candidate should possess a BS degree in Mechanical Engineering with nuclear power plant or U.S. Navy propulsion plant experience. The candidate should have at last 3-5 years' engineering experience or have served that amount of time aboard a Navy Nuclear Ship. The candidate should be competent in performing fluid flow and heat transfer calculations.

80. www.hoovers.com/co/capsule/8/0,2163,52848,00.html

81. media.corporate-ir.net/media_files/NYS/nns/AR99/nns/MD-A.html

Incentive pay

NNS offers an Employee Stock Purchase Plan (ESPP) to employees. Through the plan, employees can purchase company stock at a 15-percent discount. The stock must be held for 2 years, and each employee's contributions are limited to $21,250 annually.

Employees can also receive nonmonetary awards through the Long Service and Retirement Award Program. This program grants employees awards for 10, 20, 25, 30, 40, and 50 years of company service. Retirement awards are based on an employee's number of continuous years of service.

Leave

NNS also offers employees several types of paid and unpaid leave. NNS employees receive ten paid holidays (nine set and one floating holiday) annually. In addition, the company closes the office for the week between Christmas and New Year's. Salaried employees begin to accrue paid vacation leave upon employment. The rate of leave accrual is based on length of service: those with less than 5 years of service earn 6.67 hours per month, those with 5 to 10 years of service earn 10 hours per month, and those with more than 10 years of service earn 13.34 hours per month. Up to 40 hours per year can be carried over, and leave can be taken in increments as small as 1 hour.

Paid leave is also available for bereavement. NNS offers paid bereavement leave of up to 5 days for a legal spouse, son, daughter or stepchild, and 3 days for a mother, father, mother-in-law, father-in-law, brother, sister, grandparent, great-grandparent, or grandchildren. Bereavement leave can also be granted for the death of a step-father, -mother, -child, -brother, or -sister if they have previously lived with the employee in a family relationship.

Informally arranged paid time off for school/child care functions or for the care of a mildly ill child is also available. Through its flextime policy (described later), NNS employees can rearrange their work schedule to fit their individual needs.

In addition to its paid leave offerings, NNS also offers some unpaid leave. Unpaid educational leaves of absence are granted to eligible workers after 1 year of service. Although the employee's job is not guaranteed, the company intends to place leave takers in an appropriate position within the company following the absence. Unpaid leave is also offered under the FMLA for qualifying conditions, and NNS typically does not require that an employee's FMLA leave run concurrently with his or her accrued leave.

Unlike most private-sector companies, NNS offers no sick or personal leave. However, qualifying absences due to illness are covered under the company's short-term disability coverage.

Short-term disability insurance

NNS employees receive fully-paid short-term disability coverage after 3 months of service. Benefits are paid at 100 percent or 50 percent of daily base pay, depending on length of service. Coverage is provided for up to 26 weeks and benefits begin after the third consecutive missed workday for nonexempt employees or on the first missed working day for exempt employees.

Long-term disability insurance

NNS also offers fully paid long-term disability coverage to employees after 6 months of disability. The plan pays up to 60 percent of an employee's base monthly salary, with a maximum payment of $32,000 a month. Payments are reduced by other income, and basic and supplemental life insurance premiums are waived during the disability period.

Health insurance

Full-time NNS employees receive POS health insurance benefits for themselves and eligible dependents upon their first day of employment. Employee contributions for the coverage range from $26.60 to $235.30 depending on the employee's salary and number of covered dependents. As such, employees pay roughly 29 percent of the costs of coverage.

Under the POS plan, in-network services are not subject to deductibles; out-of-network services require a deductible. This deductible is equal to 1 percent of an individual's salary ($200 minimum) for an individual and 3 times this amount for a family.

Copayments and coinsurance rates also vary depending on whether services are received in- or out-of-network. In-network inpatient services require a 10 percent coinsurance payment, whereas in-network outpatient services require a $10 copayment. All out-of-network services require 30 percent coinsurance payments.

Out-of-pocket expenses are limited to $1,000 in network or 5 percent of an employee's salary (with a $2,000 minimum) out of network. In addition, there is no lifetime maximum on in-network benefits, but out-of-network benefits are subject to a $500,000 lifetime maximum.

Retiree health insurance

NNS employees retiring with at least 10 years of service after age 45 are eligible for retiree health insurance. Retirees under age 65 who live in-network receive a POS plan offering the same coverage available to active employees. Those over age 65 or those living out-of-network receive an indemnity plan that covers 80 percent of incurred expenses and is subject to a deductible. Retirees pay about 9.5 percent of the plan's cost through contributions. Employee contributions range from $54.80 to $137.60 for those under age 65 (depending on the number of dependents covered) and $24.30 to $107.10 for those over age 65.

In addition to this coverage, NNS retirees and their spouses can be reimbursed $20 per month for Medicare Part B premiums through the company's Retiree Medicare Premium Reimbursement Program.

NNS retirees also receive prescription drug coverage. The company's basic plan requires a 30-percent copayment with a cap of $30 per prescription. An optional plan, offering the same coverage received by active employees, is also available.

Finally, NNS retirees also receive fully funded life insurance coverage. Retirees retain $10,000 of the coverage they had as an active employee at no additional cost.

Other health insurance programs

Prescription drug coverage

NNS employees with health insurance also receive prescription drug coverage at no additional cost. There are no deductibles, and copayments range from $8 to $32 depending on the type of drug required. The plan also allows employees to mail order a 90-day supply of prescription drugs for $16 to $64, depending on the type of drug required.

Dental program

Dental coverage is offered to full-time NNS employees upon the first day of employment. Coverage is also available for legal spouses and eligible children. Employees cover 23.1 percent of the costs of coverage and pay premiums ranging from $3.60 to $19.70, depending on the number of dependents covered. The Network plan requires no deductible, whereas the Indemnity plan requires a $50 deductible for one person and $150 for a family. Both plans cover $100 of the cost of preventive services. Other services, including oral surgery/restorative, prosthodontic, and orthodontic work require copayments under the Network plan and coinsurance payments under the Indemnity plan.

Vision program

NNS employees pay 100 percent of the cost of vision insurance through premiums ranging from $8.49 to $22.92 (depending on the number of dependents covered). In-network services include the cost of an eye exam and a set of glasses or contacts; out-of-network services are subject to a schedule of set reimbursements.

Wellness programs

NNS offers a variety of wellness programs. Cholesterol and blood pressure education services are available through the NNS health plan, whereas alcohol awareness programs are offered through the Employee Assistance Program. Wellness programs, such as smoking cessation programs, weight loss programs, and onsite fitness centers, and health screening services are not currently available.

Long-term-care insurance

Like most large, private-sector companies, NNS does not offer employees or their dependents access to long-term-care insurance.

Flexible spending accounts

NNS employees may contribute to a flexible spending account for incurred health care expenses. Contributions are limited to $1,800 annually.

Other insurance programs

In addition to health insurance, NNS also offers employees access to other types of insurance, including life insurance, AD&D insurance, and travel insurance.

Life insurance and accidental death and dismemberment insurance (AD&D)

NNS employees receive 1½ times their annual salary in company-paid life insurance. The company also finances executive life insurance of 3 times the worker's annual salary. Employees can purchase supplemental coverage of 1 to 5 times their annual salary at a monthly price (which varies with age) ranging from $.05 to $1.87 per $1,000 of coverage. After initial eligibility, increases of more than one level require proof of good health.

In addition to their own supplemental coverage, employees can also purchase term life insurance for spouses and children. Coverage ranges from $5,000 to $50,000 for a spouse and $2,500 to $5,000 for children. The cost of coverage ranges from $.42 to $11.64 per month and, as with employee life insurance, the provider requires proof of good health for increases of more than one level after the initial eligibility period.

NNS also provides workers with basic AD&D coverage of 1½ times a worker's annual salary. Supplemental coverage of $100,000 to $500,000 can be purchased for a monthly premium of $1.60 to $8.00 for an employee or $2.40 to $12.00 for family coverage.

Business travel insurance

NNS employees also receive fully paid business travel insurance. Benefits are set at 5 times the employee's annual salary, with a maximum benefit of $500,000.

Retirement

NNS employees receive access to several retirement programs. NNS offers employees both a defined benefit pension plan and a defined contribution 401(k) plan. NNS employees are eligible to participate in its pension plan after 1 year of service. The plan pays benefits equal to 55 percent of a worker's final average pay (over the last 60 months) times years of plan participation (up to 35) divided by 35. Employees may seek early retirement at age 55 with 10 years of service, but will receive a reduced benefit. Workers become eligible for the company's 401(k) plan on the first of the month following employment. The plan, which offers eight different investments options, grants a 50-percent company stock match for the first 8 percent of employee contributions. In addition, the company provides employees with a 3-percent stock grant. The maximum pretax employee contribution is 12 percent and the company match is vested after 2 years of service.

Educational and training programs

NNS offers employees access to several educational and training programs, such as tuition reimbursement and in-house training programs.

Tuition reimbursement

With the approval of their department heads, regular full-time NNS employees can participate in the company's tuition reimbursement program. The program, which includes job-related classes taken at trade schools as well as undergraduate and graduate institutions, pays a set percentage of tuition depending on the grade received. Those earning an A or Pass in an ungraded class receive 100 percent reimbursement. Lower grades are subject to smaller reimbursement shares. There is no limit on the amount of reimbursement granted, and no pre- or post-service requirement required. The cost of books, materials, and fees is not reimbursable through the program.

In addition, NNS reimburses employees for the costs of Professional Certification Examinations. These reimbursements are also not subject to a maximum, but must be pre-approved.

In-house training

NNS also provides employees with considerable opportunities for training. In addition to orientation, safety and health, and basic skills training, employees receive in-house training in 18 shipbuilding and repair trades through its apprenticeship school. In addition, its Craft Skills Training program provides ongoing training to employees through courses similar to those that may be offered in Navy "C" or "F" schools [61]. The company's Night School Program offers employees a broad range of shipbuilding and computer-related courses. Finally, NNS holds career fairs across the country and offers co-op opportunities to full-time, 4-year college students in technical engineering, design, and information technology fields.

Work/life programs

Child/elder care

Fully paid child care referral services are available and NNS provides a list of area child care sources tailored to an individual's specific needs. Elder care resource and referral services are also available. In addition, NNS employees may contribute to a flexible spending account for incurred dependent day care expenses. Contributions are limited to $4,800 annually.

Adoption benefits

Like most of its large, private-sector counterparts, NNS does not currently offer any adoption assistance benefits or services.

Employee Assistance Program (EAP)

NNS's EAP offers employees and eligible dependents free counseling services, including alcohol awareness programs. Counselors will make the necessary arrangements for care through the company's health plan if needed. Mental health and substance abuse treatment, the costs of which are covered through a employee's medical plan contributions, requires a 10-percent coinsurance payment for in-network,

inpatient care (subject to a $1,000 out-of-pocket maximum), a $25 copayment per visit for in-network, outpatient care, and a 50-percent coinsurance payment for out-of-network inpatient or outpatient care. In addition, out-of-network inpatient care requires a $400 deductible prior to coverage.

Financial programs

NNS's Survivor Support Program offers free, personalized financial counseling to the spouse or designated family member of an active employee upon his/her death.

Legal programs

NNS offers legal services, including advice and consultation services, will preparation services, and assistance with real estate purchases or sales, contracts, legal documents, adoptions, or traffic violations. Employees fully fund the program through a monthly contribution of $14.

Flexible work arrangements

As mentioned earlier, NNS offers employees a flextime work arrangement. This work arrangement allows employees to adjust the time they begin and end work. As such, employees are able to vary their schedules according to their individual needs. Other types of flexible work arrangements, such as telecommuting, job sharing, and compressed work schedules, are not currently offered.

Other benefit offerings

NNS offers a variety of relocation benefits based on an employee's level. Benefits can include assistance with house hunting, temporary living benefits, the packing, shipping, and storage of household goods, an incidental allowance of $1,000, reimbursement of travel expenses, destination services, lease cancellation services, the provision of relocation differentials, loss protection, and spousal assistance. The company also offers mortgage differentials and assistance with the purchase of a home.

Like most of its private-sector counterparts, NNS does not currently offer any purchasing or group discounted purchase options or provide uniforms and/or work clothes to its employees.

Lucent Technologies

A spin-off of AT&T, Lucent Technologies, Inc., manufactures telecommunications equipment and software. In FY01, the company reported $21.3 billion in sales and had a staff of 126,000 employees.[82] It has previously ranked 10th in *Fortune* magazine's list of America's most admired companies, and 25th in the list of the 50 best companies for minorities.[83]

Lucent offers separate benefit packages to its managerial and technical employees. Because our interest is in benefits offered to technical workers, we limit our discussion primarily to benefits offered to Lucent's occupational employees.

Incentive pay and paid leave

No information about Lucent's incentive pay and traditional paid leave offerings is currently available.

Disability insurance and unpaid leave

Short-term disability insurance

Lucent provides employees with free short-term disability benefits for both work-related and non-work-related illness and injury through its sickness and accidental disability benefit plan. Occupational employees are eligible for sickness coverage after 6 months of service. Accidental disability coverage (for work-related accidents) begins upon employment. Plan benefits are based on pay and length of credited service and are paid for up to 52 weeks. Accidental disability payments begin on first full day of absence; sickness payments begin on the eighth consecutive day of absence.

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82. www.hoovers.com/co/capsule/6/0,2163,46656,00.html.

83. www.fortune.com.

Long-term disability insurance

Lucent's long-term disability plan offers continued benefits upon the expiration of the sickness benefit coverage period. Occupational employees must have completed 6 months of service to be eligible, and the disability cannot be work related. Coverage is free and, when combined with other sources of disability income, it can replace up to 60 percent of a disabled employee's eligible base pay. Benefits end when the employee is no longer disabled, reaches the lifetime time limit on benefits (generally age 65 or later, depending on when the disability occurs), or dies.

Lucent also offers employees some unpaid leave. In addition to leave offered under the FMLA, Lucent employees can be granted a 12-month unpaid leave of absence within a 2-year period to care for a seriously ill family member or for a newborn or newly adopted child. The leave counts against the employee's unpaid FMLA allotment, but the employee is guaranteed reinstatement to the same job or one of like status and pay upon return.

Basic health insurance

Occupational employees and eligible dependents receive health benefits after 6 months of service. The Lucent health insurance plan offers a traditional indemnity (fee-for-service) option (which also has a PPO option), an HMO option, and a POS option. Unlike in the military's TRICARE system, dependents of Lucent employees must select the same health care plan as the employee.

The cost of health care coverage to Lucent employees varies depending on the plan selected. Under the POS or traditional indemnity plans, occupational employees generally do not pay any direct costs, unless they elect to obtain coverage within the first 6 months of employment. Those in the HMO option pay some direct costs, which vary by the HMO selected. Deductibles also vary depending on the plan. Those in the POS plan pay no deductibles in-network, but $400 per individual or $800 per family if services are received out of network. Those in the traditional indemnity plan pay deductibles of $200 to $600. Copayments are generally $10 per office visit for in-network POS and HMO services, but may be higher for services received

out-of-network. Individuals in the traditional indemnity program do not pay copayments, but must pay coinsurance of 0 to 20 percent of the allowable amount.

Retiree health insurance

Former Lucent employees who are at least 50 years old with at least 15 years of service or those already receiving service or disability pensions are eligible for retiree health benefits. Depending on geographic location, retirement date, and Medicare eligibility status, employees may be eligible to choose from three different plans: an HMO, a POS, and a traditional indemnity plan (which also has a PPO option).[84] The Lucent plan serves as the primary benefit plan for those under age 65; Medicare serves as the primary benefit plan for those age 65 and over.

Lucent retirees directly contribute to their health care premium expenses, but the amount varies depending on the option selected. Deductibles also vary by plan. Those in the POS plan pay no deductibles in-network, but $400 per individual or $800 per family deductibles are required for out-of-network services. Those in the traditional indemnity plan pay deductibles of $200 to $600 unless receiving a service or disability pension.[85] Copayments are generally $10 per office visit for in-network POS and HMO services, but may be higher for out-of-network services. Individuals in the traditional indemnity program do not pay copayments, but must pay coinsurance of 0 to 20 percent of the allowable amount.

Lucent retirees also receive prescription drug coverage. Retirees enrolled in the traditional indemnity or POS plans receive prescription drug benefits through a separately administered prescription drug plan, whereas those in the HMO receive benefits through their plan. Copayments apply in-network, and range from $5 to $15 for individuals enrolled in the Lucent HMO option. Mail-order services are also available.

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84. For example, employees retiring after 3/1/90 residing in a POS area may not enroll in the traditional indemnity plan.

85. In this case, retirees pay a deductible of $50 plus 1 percent of annual pension ($75 minimum and $200 maximum).

Other health insurance programs

Lucent also offers occupational employees a range of other health insurance programs. These include:

- Prescription drug program - Employees enrolled in the traditional indemnity or POS plans receive prescription drug benefits through a separately administered prescription drug plan, whereas those in the HMO receive benefits through their plan. Copayments vary depending on the plan, and services received out-of-network may be subject to coinsurance and deductible amounts.

- Dental program - Occupational employees with 6 months of service receive free dental coverage for themselves and their dependents. Employees have a choice between two options, which both pay 100 percent of the cost of basic and routine services and a share of the cost of other services.

- Vision program - After 6 months of service, Lucent pays the cost of vision care coverage for employees and their dependents. The plan pays some costs for routine eye exams, glasses and contacts and can be used once every 24 months. Out-of-pocket expenses are lower if beneficiaries use in-network providers.

- Wellness programs - Several wellness programs, like well-baby, well-child, and well-woman programs, are offered through the Lucent POS and HMO health care plans.

- Long-term-care insurance - Lucent offers long-term-care insurance to both eligible occupational employees and their family members after 6 months of service. However, employees pay the full cost of coverage. Eligible individuals can choose between nursing home and comprehensive coverage, daily benefit limits, and the election of nonforfeiture coverage.[86]

86. Nonforfeiture coverage means that after an employee pays premiums for at least 3 years, he or she may elect to stop making payments and will still be entitled to coverage equal to the full daily benefit, subject to a total lifetime benefit of either the total amount of premiums paid or 30 times the daily benefit—whichever is greater.

Benefits are subject to a lifetime maximum. Home health care services and hospice care are also covered under Lucent's health care plans.

- Flexible spending accounts - Lucent's Health Care Reimbursement Account program allows employees to set aside pretax dollars for health care expenses incurred by the employee, his or her lawful spouse, and all eligible dependents. Expenses include medical, dental, hearing, or vision-related expenses and are subject to a $3,000 annual maximum contribution. Occupational employees must complete 6 months of net credit service before becoming eligible for the program.

Other insurance

Lucent offers occupational employees several other types of insurance coverage, including life insurance, AD&D coverage, and travel accident insurance.

Life insurance and accidental death and dismemberment insurance

Lucent offers free life insurance and AD&D coverage equal to one times the occupational employee's total annual pay after the completion of 6 months of service. Supplementary life or AD&D insurance coverage is available for an additional 1 to 5 times an employee's total annual pay, but the employee pays the full price of supplemental coverage. Coverage for dependents must be purchased separately at full cost.

Travel accident insurance

Lucent's Travel Accident Insurance Plan provides free coverage to eligible employees from their first day of active employment for accidental death or dismemberment incurred while on company-paid business travel. Spouses and children are also covered when they travel with the employee on company-paid and approved business or relocation trips. The plan provides accidental death and dismemberment coverage of up to 4 times the employee's basic annual pay, up to $3 million and up to $100,000 for a spouse and $50,000 for each eligible child. Coverage is reduced after age 70 and cannot be waived.

Retirement

Lucent offers employees both a defined benefit pension plan and a defined contribution savings plan. Through the Pension Plan, eligible employees receive benefits if they are at least 21 years of age and have been credited with at least 1,000 hours in a year. Three kinds of pensions are available: a service pension for those meeting certain minimum age and service requirements, a disability pension if an employee is unable to work due to a disability, and a deferred vested pension, if employees leave after vesting and are not eligible for either of the other two pensions offered. Sickness and accidental death benefits under the plan begin with the first day of employment. The company pays the entire cost of the plan, and vesting occurs within 5 years of service.

Lucent also offers a Long-Term Savings and Security plan to occupational employees. Through the plan, employees can contribute up to 16 percent of their eligible salary in either pretax or after-tax dollars. Employees can choose to invest in up to 13 funds.[87] Although employees become eligible for the plan after 6 months of credited service, the company matching contributions (.66 2/3 for every $1) do not begin until employees have completed 1 year of service and employees are not fully vested in the plan until they complete 5 years of service. Employees may borrow or withdraw from their accounts, subject to some restrictions.

Educational and training programs

Information on the education and training programs offered to Lucent's occupational employees currently is not available. However, we report information on several of Lucent's internship and co-op programs.

Lucent offers several "Early Career Identification" programs, including summer internships, internships, and co-ops, to eligible students in specified majors. Internships are offered to students ranging in

87. Employer matching contributions are automatically invested in the Employer Shares Fund.

level from college freshmen through PhD students and college faculty members and usually entail a 10-week assignment. Co-ops are limited to one semester and are offered to undergrad freshmen, sophomores, and juniors.

In addition to the "Early Career Identification" programs, Lucent offers special programs and scholarships to women and minorities. Through the Inroads program, the company sponsors students for a 2- to 4-year period, with the promise of full-time employment upon successful completion of the program. Students apply for the program as high school seniors or within their first 2 years of college. The GEM Fellowship Program offers those earning an M.S. in engineering, a Ph.D. in science, or a Ph.D. in engineering paid summer internships and financial assistance for graduate school. The Summer Research Program for Women gives women completing their second or third year of college the opportunity to work with researchers over a summer. The Graduate Research Program for Women makes grants and offers fellowships to women doing full-time work on a science or engineering Ph.D. Finally, the Cooperative Research Fellowship Program for Minorities offers tuition, fees, books, an annual stipend, and travel expenses to promising minority candidates.

Work/life programs

Lucent offers several different work/life programs. All services are free and may be used as frequently as needed, but employees may have to pay for treatment by referred providers and other related expenses. Services are delivered through an outside provider—DDC, Inc.—and are available 24 hours a day, year-round.

Child care

At Lucent, the Family Resource Program offers resource and referral services for child care and advice on parenting issues. The program also assists parents with their children's educational issues. Although the company does not directly provide child care services, employees can defer up to $5,000 annually in pretax dollars for child and/or adult care expenses. Furthermore, Lucent's Family Care Development Fund offers grants of up to $40,000 each to eligible child and school-age care programs throughout the United States.

Elder care

Lucent's Family Resource Program also offers employees elder care resource and referral services. These services help employees to locate, evaluate, and manage care and provide advice. Similar services are also available for employees with a family member with special needs. In addition, Lucent's Vital Aging Resource Program offers a website designed to help individuals better plan for the long-term care of an elder.

As mentioned above, Lucent occupational employees can defer up to $5,000 annually in pretax dollars for child and/or adult care expenses. And the Family Care Development Fund also makes grants of up to $40,000 each to eligible adult care programs. Finally, Lucent employees can purchase long-term-care insurance for their elder family members.

Adoption benefits

Lucent's occupational employees become eligible for adoption benefits after 6 months of service. These benefits, which include consultations and referral services and the payment of court costs, agency expenses, legal fees, and temporary child care costs, are capped at $3,500 annually.

Employee Assistance Program (EAP)

Lucent also offers confidential assessment, counseling, referral, and follow-up services to employees and their immediate families. Services are administered through Health Services and assist those with emotional difficulties, substance abuse, marital, or family concerns, or other personal concerns.

Prepaid legal services are offered to employees, their spouses, and other family members after 6 months of service through a separate program. Services include consultations with attorneys, separation, divorce, or annulment proceedings, wills, real estate sale, purchase, or refinancing of primary residence.

Finally, the Family Resource Program offers several other services, including career counseling and advice on maintaining a work/life balance, choosing a financial planner, or planning retirement.

Flexible work arrangements

Information on Lucent's flexible work arrangements is not currently available.

Other benefits and services

Information on other benefits and services, including housing and casual dress, is not currently available.

United Parcel Service

Headquartered in Atlanta, Georgia, United Parcel Service (UPS) realized sales of $29.8 billion in 2000 with a staff of 359,000 employees. Members of the founding families, managers, employees, and retirees primarily own the company, which was named "Company of the Year" by *Forbes* magazine in January 2000.

Although UPS does not specifically recruit workers with technical skills, we chose to examine its benefit offerings for several reasons. First, much of UPS's staff is part-time. Although military reservists have been omitted from the analysis thus far, their role in military operations has become more expansive over time. Coupled with the ability of active-duty servicemembers to move to reserve status, there is considerable interest in the characteristics of part-time opportunities available to servicemembers.

Incentive pay

UPS offers a variety of incentive pay structures to its employees. All employees are eligible for the receipt of stock options, and all UPS employees can purchase company stock through a direct payroll deduction. Gainsharing payments and team-based incentive pay are available to employees in specific UPS operations. Signing and hiring bonuses are also used at the firm, particularly for Information Systems positions. Finally, the manager's incentive plan offers stock incentives based on company profits to select staff.

Employees can also receive nonmonetary awards for significant lengths of service, safe driving, safe work, community service, or individual contributions.

Leave

UPS offers employees several types of paid and unpaid leave. Employees receive 8 paid holidays annually. In addition, employees receive 2 to 6 weeks of paid vacation, depending on length of service. Although employees cannot carry over unused vacation days, nonexempt employees can cash out these days annually. Nine paid discretionary leave days, which can be used for any purpose, and paid bereavement leave are also available. UPS employees are typically allowed additional informally arranged paid time off for school/child care functions or the care of a mildly ill child.

In addition to unpaid leave required under the FMLA, unpaid personal leaves of absence of up to 1 year are available on a case-by-case basis.

Short-term disability insurance

UPS employees receive short-term disability coverage after a waiting period of up to 4 days, varying based on the disability incurred. Management employees receive their regular salary during the disability period; nonmanagement employees receive regular pay for 13 weeks and 60 percent of regular pay for 14 to 26 weeks of disability.

Long-term disability insurance

Long-term disability coverage for UPS employees begins after the 27th week of disability for a nonexempt employee and after the 53rd week of disability for an exempt employee. The coverage is provided at no cost to the employee, but employees have the option of purchasing a supplemental COLA benefit. For most conditions, coverage continues for as long as the disability persists.

Health insurance

UPS employees can choose between an HMO, POS, or PPO health plan and can select varying levels of coverage. Each employee is given an equal number of "credits"—irrespective of pay, position, or length of service—that can be expended on health insurance. If the costs of coverage exceed the value of the credits issued, the employee pays the

difference. On average, employees contribute approximately $60 per month for health insurance coverage.

The health plans that UPS offers typically do not require a deductible, but usually entail a copayment. On average, copayments range between $10 and $15 per office visit.

Retiree health insurance

UPS employees retiring with at least 10 years of service after age 55 are eligible for retiree health insurance, whether or not they are Medicare eligible. Retirees may choose between an HMO or POS health care plan. Company liability is capped in the defined dollar benefit plan, with the retiree responsible for all premiums above this cap. The required contribution varies with years of service. Only a small share of retirees currently must pay premium amounts, and those with 25 years or more of service make no contribution for health coverage. Finally, UPS also provides prescription drug coverage to both pre- and post-Medicare retirees.

Other health insurance programs

UPS employees also receive a range of other health insurance programs. These programs include:

- Prescription drug coverage - UPS employees with health insurance receive prescription drug coverage at no additional cost. A 90-day supply of prescription drugs can be ordered via mail. Copayments and mail-order costs range from $5 to $30 (depending on plan).
- Dental program - UPS employees receive dental coverage. Unless a DMO option is chosen, deductibles ranging from $50 to $100 apply.
- Vision program - UPS employees receive vision insurance, which covers the cost of annual eye exams. Depending on the plan chosen, the cost of eyeglasses may also be covered (subject to certain restrictions).
- Wellness programs - UPS offers a variety of wellness programs to its employees. Prenatal care and well-baby programs are

available at all locations, whereas weight loss, smoking cessation, stress reduction, and health screening programs are available only in certain locations. Alcohol and drug treatment and referral programs are part of the Employee Assistance Program.

- Long-term-care insurance and cancer insurance - UPS employees can purchase long-term-care and cancer insurance, but must pay the costs of this coverage. Several different long-term-care options are available. Met Life provides long-term-care insurance; AFLAC provides cancer insurance coverage.

- Flexible spending accounts - UPS offers employees access to flexible spending accounts for incurred health-related expenses. Contributions must be at least $50 and can be as much as $3,500 annually.

Other insurance programs

Life insurance and accidental death and dismemberment insurance

UPS employees receive 12 times their monthly salary (up to a $1 million) in company-paid life insurance. Employees' spouses and children receive $2,000 of life insurance at no additional cost. Employees can purchase supplemental life insurance coverage in $1,000 increments up to a maximum amount of $1 million. Cost varies based on age and smoking status.

UPS also provides workers with AD&D coverage. The company provides basic coverage of 12 times a worker's monthly salary (up to $1 million). As with life insurance, supplemental coverage can be purchased in $1,000 increments up to a maximum amount of $1 million and cost varies with age and smoking status.

Business travel accident insurance

UPS offers $100,000 of business travel accident insurance to employees at no cost.

Retirement

UPS offers employees both a defined benefit pension plan and a defined contribution 401(k) plan. UPS employees are eligible to

participate in its defined benefit pension plan after 1 year of service. Workers become eligible for the company's defined contribution savings plan after 6 months of service. The plan makes a 100 percent match on the first 3 percent of employee contributions.

Educational and training programs

UPS offers employees (and in some cases, their dependents) several educational and training programs.

Tuition assistance loans or grants

Full-time UPS employees are eligible for up to $5,250 in tuition reimbursement annually for pre-approved job-related coursework. Up to $65 per class is available for the purchase of books and materials and no reimbursement requirements currently exist.

One UPS program that has received considerable attention is the "Earn and Learn" program, which offers employees up to $23,000 in forgivable loans and tuition. Available in 40 cities thus far, over 10,000 employees have enrolled nationwide and have received over $9 million in educational assistance. The program offers $3,000 annually ($15,000 limit) in tuition assistance to part-time employees upon employment. In addition, $65 per class is available for fees, textbooks, etc., and is payable over 4 years. Part-time employees can also receive up to $2,000 annually in student loans (limited to $8,000 over 4 years) that is repaid by UPS based on an employee's tenure. After 4 years, a full $8,000 can be repaid by the company, with the student only paying interest.

There are some indications that the "Earn and Learn" program has been successful. Since its initiation, retention is up 30 percent among enrolled employees.

In addition to the "Earn and Learn" program, UPS also offers several cooperative education programs. To maintain its rapidly growing airline operations based in Kentucky, UPS has launched a cooperative program called Metropolitan College in Louisville, Kentucky, that offers free tuition, housing, and books to part-time UPS workers based in that facility. The company also offers high school juniors and seniors a "School-to-Work" program to earn college credit while

working part-time at UPS offices based in several large cities. Finally, UPS offers co-op opportunities through several colleges and technical schools and hires university interns from around the country.

UPS employees may also receive ConSern educational loans. These loans are available to UPS employees or their dependents for study at a private K-12 school, undergraduate or graduate institution, or at a professional or vocational school. Up to $25,000 is available annually (with a $100,000 maximum) and can be used to finance tuition or living expenses.

Finally, the children of full-time UPS employees may receive academic or vocational/technical scholarships through the Dependent Children Scholarship program. Based on need, these 4-year scholarships can cover up to 100 percent of the costs of education.

In-house training

UPS provides its employees with considerable in-house training opportunities. All employees receive orientation, safety and health, workplace-related, and apprenticeship training. In addition, basic skills training courses are offered at several UPS facilities either before or after work. Employees also have the opportunity to attend outside seminars and conferences related to job duties, and all job holders receive considerable on-the-job training.

Work/life programs

UPS offers employees access to several different work/life programs. These programs include:

- Child care - UPS offers employees several child care services. Fully paid child care referral services and parenting education are available through the company's Work/Life Assistance program. Listed child care providers also offer employees discounts on services. In addition, UPS employees may contribute to a flexible spending account for incurred child care/elder care expenses. Contributions must exceed $50 and are limited to $5,000 annually.

- Elder care - Elder care referral, education, and counseling services are available through UPS's Work/Life Assistance program. UPS employees may also contribute to the child care/elder care flexible spending account described above.

- Adoption benefits - UPS offers adoption assistance benefits to employees. The maximum annual reimbursement is $3,500 per child, with an additional $1,500 available for the adoption of a child with special needs.

- Employee Assistance Program (EAP) - UPS's EAP offers employees financial assistance, alcohol and drug referral and treatment services, and mental health services. Substance abuse and mental health treatment services are provided through employees' medical plans. In addition to its child and elder care counseling and referral services, the Work/Life Assistance program offers financial referral, education, and counseling services as well as assistance with virtually any everyday personal concern.

- Legal programs - UPS's legal services plan offers employees assistance with a variety of matters, including will preparation, adoptions, matrimonial cases, debt collection defense, defense in civil actions, divorce, real estate, and estate administration and closings. Employees using a nonparticipating attorney are required to pay fees in excess of the scheduled benefit amount.

- Flexible work arrangements - UPS offers employees several different flexible work arrangements. For example, UPS employees may telecommute if they make a request and their position warrants such an arrangement. Job sharing is available at some sites for some occupations, as are compressed workweek schedules. Although phased return from leave is not offered, those returning from an extended absence can be assigned temporary alternate work as needed.

Other benefit offerings

UPS offers employees several types of other benefits, including housing, relocation, discount, and cultural gift program benefits.

UPS offers several housing-related benefit programs. For example, through the Employee Mortgage program, select providers offer UPS employees discounted home loans. The Personal Lines Insurance Purchase program allows employees to make payroll deductions for the purchase of a home as well as for the purchase of auto insurance.

UPS also offers a variety of relocation benefits. Benefits can include assistance with the marketing, sale, and closing on a house, brokerage fees, home purchase (in some circumstances), temporary living expenses, the moving of household goods, househunting trips, spousal employment, and school placement for dependents.

The company also provides an employee discount program and uniforms to its employees. The corporate headquarters offers employees access to a fitness center and cafeteria. Employees at other locations are offered discounts at local fitness facilities.

UPS's Cultural Gift Matching program matches employee gifts to cultural and educational organizations meeting specified guidelines. To be eligible for the program, employees must be employed full-time and have completed at least 1 year of service.

Finally, UPS offers its employees some flexibility in benefits. Through a Section 125 plan, UPS workers can choose among a variety of different benefits to tailor a package that suits their individual needs.

Assessing select companies' incentive pay and benefit programs

Taken together, the information presented above can be used to qualitatively assess select companies' incentive pay and benefit programs and compare these programs to the offerings of most large, private-sector employers.

Incentive pay

Like most large, private-sector firms, each of the described companies offers some form of incentive pay.[88] These incentive pay programs vary from stock-based programs and cash bonuses to nonmonetary awards.

Leave

The described companies also offer several forms of paid and unpaid leave. Like most large, private-sector firms, the selected companies offer paid holiday, vacation, and bereavement leave. Vacation leave accrues and varies with length of service, but company policies regarding the carryover or cash-in of leave vary. The described companies' sick leave policies are somewhat atypical—with NNS offering no formal sick leave and UPS offering only discretionary leave. Finally, like most large, private-sector companies, NNS, Lucent, and UPS all offer FMLA leave, unpaid leaves of absence, and short- and long-term disability coverage. In addition, both NNS and UPS offer informally arranged paid time off for school/child care functions or the care of a mildly ill child.

Health insurance

The described companies also offer basic health insurance coverage, as do most large, private-sector companies. Lucent and UPS offer employees a choice among plan structures, whereas NNS employees only receive a POS option. Depending on the plan selected, employees may have to pay a share of the direct costs of health insurance provision. Not all company plans require deductibles, but all do require copayments.

Retiree health insurance

The companies examined all offered some retiree health insurance benefits, compared to about half of all large, private-sector firms.

88. NNS has been omitted from the discussion of incentive pay and traditional leave offerings because no information on the company's programs is currently available.

Years of service required for benefit receipt ranges from 10 to 15, with no company providing benefits before age 45. The described companies all offer retirees some plan choice, but typically require retiree contributions toward the cost of coverage. Deductibles and copayments vary across plans, but all plans offer prescription drug benefits. In addition to these benefits, NNS retirees also receive some life insurance coverage.

Other health insurance programs

The companies examined also offer employees access to some additional health insurance programs. An assessment of these offerings follows:

- Prescription drug programs - Like most large, private-sector firms, each offers employees prescription drug benefits at no additional cost and the ability to order prescriptions by mail. Deductibles and copayments vary by plan.
- Dental programs - All companies offer dental insurance, but NNS employees pay a share of the direct costs and deductibles, copayments, and coinsurance rates vary by plan.
- Vision programs - All described firms also offer vision insurance, although the degree to which the employer finances the direct cost of insurance varies from 100 percent at UPS to 0 percent at NNS.
- Wellness programs - Whereas only about half of all large, private-sector firms offer wellness programs, all companies examined offer programs, including services ranging from alcohol awareness and education to well-baby programs.
- Health screening services - Although survey data suggest that over half of all large, private-sector firms offer health screening services, UPS only offers these services in certain locations, and services are not offered by NNS or Lucent.
- Long-term care insurance - Like most large, private-sector firms, NNS offers no long-term care insurance. Coverage is available to Lucent and UPS employees, but they must fully absorb the coverage's cost.

- Flexible spending accounts - Like the majority of their counterparts, all three firms examine offer flexible spending accounts for health-related expenditures.

Other insurance programs

Like most large, private-sector firms, all described companies offer basic life and AD&D insurance to employees at no additional cost. Employees may purchase supplemental and dependent coverage for an additional cost.[89] Finally, all companies examined provide employees with free travel insurance.

Retirement

Each company examined offers both a defined benefit and a defined contribution plan. Like most large, private-sector firms, the defined contribution (401(k)) plans offered by these companies grant an employer match, either in stock or in cash. Typical of other large, private-sector firms, other retirement-based plans are not offered, except that Lucent honors the preexisting ESOPs of current employees.

Educational and training programs

The companies examined all offer some educational and training programs. Tuition assistance is available at NNS and UPS, and—unlike in most large, private-sector companies—no preemployment period is required for eligibility. Additionally, UPS offers some reimbursement for the cost of books and fees and extends benefits to part-time employees. All three described companies offer co-ops, and Lucent and UPS also offer several scholarship opportunities. UPS also grants several educational loans (including forgivable ones) that are atypical of most large, private-sector company offerings.

All described companies also offer some in-house training in orientation, safety and health, and job skills. Basic skills training is also offered at NNS and UPS.

89. UPS provides $2,000 of life insurance coverage to employees' spouses and children at no additional cost.

Work/life programs

The described companies offer several work/life programs. An assessment of these programs follows:

- Child care - Coincident with trends nationwide, none of the companies examined offered onsite or near-site child care. Rather, like only about one-third of their large, private-sector counterparts. they all offer resource and referral services. All companies examined also offer dependent care spending accounts. In addition, Lucent makes grants to qualifying child care programs and UPS offers child care discounts.

- Elder care - Atypical of most large, private-sector companies, all companies examined offer elder care research and referral services. All companies also allowed contributions to the dependent care spending accounts described above for elder care expenses. Unlike most large, private-sector companies, Lucent makes grants to qualifying elder care programs and also offers long-term care insurance to dependents.

- Adoption benefits - Unlike most of their large, private-sector counterparts, both Lucent and UPS offer adoption benefits. Both programs cap benefits at $3,500 annually, slightly higher than the average maximum reimbursement for adoption costs among all companies offering these programs.

- Employee Assistance Programs - Like most large, private-sector companies, all companies examined grant employees access to EAPs that include counseling, substance abuse assessment, and treatment services. In addition, unlike most counterparts, Lucent and UPS provide employees with some legal and financial services (either through the EAP or through a separate program).

- Flexible work arrangements - The companies examined varied in their provision of workplace flexibility measures.[90] Whereas NNS only offers employees a flexible scheduling (flextime)

90. Lucent is omitted from this discussion because no information on its flexible work arrangement programs is currently available.

option, UPS offers employees access to telecommuting, job sharing, and compressed workweeks (subject to certain occupational and regional restrictions).

Other benefit offerings

Described companies also offer employees several other benefits.[91] Like most large, private-sector companies, both NNS and UPS offer relocation benefits. These benefits can include such things as assistance with house hunting, home purchase, temporary living expenses, and the moving and storage of household goods. Unlike most of their counterparts, NNS and UPS also offer spousal relocation and mortgage assistance. Finally, they each offer several nontraditional relocation benefits, such as school placement for dependents and incidental allowances.

In addition to its offered relocation benefits, UPS also offers an employee discount program and provides uniforms to employees. Employees have some access to fitness centers, and—unlike in most large, private-sector firms—are able to tailor benefits to their individual needs. Finally, employees' charitable contributions can be matched through UPS's Cultural Gift Matching Program.

Summary

Our examination of the three companies selected shows their incentive pay and benefit offerings—with the exception of UPS's generous educational benefits—to be fairly typical of the offerings of other large, private-sector firms. As such, there is little reason to believe that their appeal to individuals leaving the military arises from inherent differences in their offered incentive pay and benefit programs.

91. We omit Lucent from this discussion because no information on its other benefit programs is currently available.

Conclusions and policy recommendations

In this report, we examined the issue of whether private-sector incentive pay and benefit offerings differ significantly in their provision, scope, or structure from programs available to servicemembers and, if so, whether these differences have played a role in the military's recruiting and retention difficulties. We find that there are several key areas where military and private-sector incentive pay and benefit provision significantly differ:

- Incentive-based pay
- Health care
- Retirement
- Education and training
- Child care
- Workplace flexibility
- MWR and other quality-of-life programs.

In most cases, military benefits are broader in scope than those offered by the private sector—a proposition confirmed by recent CNA research showing that the relative cost to the military of benefits exceeds that in the private sector.[92] However, incentive-based pay and workplace flexibility measures are more prevalent in the private sector than in the military.

We also found that military and private-sector incentive pay and benefit programs often differ in structure. For example, the shift from defined benefit to defined contribution plans—particularly in the area of retirement—offers one striking structural difference in these

92. Differences are most significant in the areas of retirement and health care [24].

offerings. In fact, some private-sector employers and employees have even expressed interest in shifting toward defined contribution rather than defined benefit health care plans.[93] Although matched defined contribution retirement plans are now the norm in the private sector, no such option is currently available to servicemembers. The new TSP program gives servicemembers a defined contribution retirement option but, because no match is offered, its appeal will be limited.

Finally, military and private-sector benefits differ in the degree of choice that they offer to employees and servicemembers. For example, servicemembers are allowed no choice in health care coverage or retirement programs. Although the military spends relatively more than the private sector on benefit programs, limited choice may mean that these programs do not necessarily have greater "value" to the servicemembers who receive them. In fact, changes in the "mix" of benefits that the military provides may better appeal to servicemembers the military hopes to retain.

Recommendations

Consider introducing cash and choice into compensation

Because the military has considerable difficulties with first-term retention, compensation strategies that put relatively more compensation into cash and allow for more individual choice in benefits may help to retain younger individuals, who typically have a short time horizon because of frequent job changes and few dependents. In fact, BridgeGate reports that younger workers (age 18-24) are more likely to stay with an employer if given a raise than workers in older age groups. At the same time, workers with a high school degree or less place more value on benefits than wages [78]. Although these trends conflict, as more servicemembers with higher levels of education enter the services or receive educational benefits while in the services,

93. A 1999 survey of senior executives at Fortune 1000 companies and employees found that 46 percent of surveyed senior executives and 73 percent of surveyed employees were receptive to such a concept [43].

the first of these first effects is likely to outweigh the other—resulting in a preference for cash-based compensation.[94]

Thus, even if the value of total compensation in the private sector and the military were equal, shifting compensation from programs requiring a long time horizon (e.g., defined benefit retirement benefits) to more short-term, visible programs (e.g., higher pay/bonuses or portable defined contribution retirement benefits) could make a compensation package with the same cost more attractive to younger servicemembers.

Shifting away from the direct provision of many services, including housing, child care, and food services, toward the use of financial offsets or incentives could also improve choice for servicemembers of all ages. As more private-sector companies move toward the provision of "flexible benefits" that allow individuals to tailor both benefits and the pay/benefit mix to suit their own needs, restricted choice may work to the military's disadvantage.

Introducing incentive-based pay could improve performance

Trends in the demographics of the military population suggest that the military may also want to consider ways in which private-sector incentive-based pay programs can be adapted to become part of military compensation. Despite cultural and methodological concerns about initiating incentive-based pay structures in the military, these pays have the potential to both improve military performance and increase compensation for military personnel—either at the individual or team level. Examination of private-sector incentive pay programs could also prove useful as the military looks for ways to introduce skill-based pay.

94. In fact, data suggest that temporary workers (who are typically younger than their counterparts in traditional employment) often opt out of private-sector health care and pension plans [79].

Assignment and work schedule flexibility could improve work/family balance

Workplace flexibility measures, which can be relatively inexpensive to implement, may also be useful in improving first-term retention. Because many survey respondents report that the location/schedule of work or the compatibility of the servicemember's job with his or her spouse's career/job played a role in decisions to leave the Navy, it is likely that measures that introduce additional flexibility in the location and timing of military work would help to ease these pressures and could potentially stem personnel losses. All military functions and positions should be evaluated to determine whether work could be better organized to suit servicemembers' needs without compromising military readiness. New technologies could facilitate additional workplace flexibility. Similarly, the uniform provision of some paternity leave may also improve satisfaction. As women continue to enter the workforce and pursue careers, measures that allow servicemembers to better balance work and family will be increasingly important.

Consider increasing the "costs" of separation

In addition to taking steps that encourage individuals to enlist in the military, steps should also be taken to discourage servicemembers from separating. As survey information reveals, private-sector opportunities play a significant role in the separation decisions of both attrites and EAOS losses. Our research indicates that individuals may seek military technology-based training with the hope of subsequently leaving for a lucrative private-sector job. Although it was historically the case that the stigma associated with attrition served as a significant deterrent to premature separations, this may no longer be the case. In a labor market so tight that employers are willing to overlook the transgressions of ex-convicts, former gang members, and recovering drug addicts, a broken military enlistment contract is unlikely to generate much concern [80].

As a result, the military should design policies and procedures that effectively "punish" those not completing their enlistment contracts and that reward those who do. Penalties could include the recoupment of the entire enlistment or reenlistment bonus granted (rather

than just recoupment of the unserved portion) and the revocation of MGIB benefits.

Consider publicizing benefits and improving information access

Finally, our research revealed another move that could potentially help military recruiting—the consolidation of information on the benefits associated with military service. A short pamphlet or easily accessible website could serve this purpose.[95] Currently, information about the various benefits offered to military personnel and their families is scattered among an array of websites and publications.[96] Most private-sector companies offer materials of this type, so such a move would facilitate comparison of offered private-sector and military compensation packages. Because we found that the military generally provides more generous benefits than its private-sector counterparts, a section that highlights these differences could also prove useful in recruiting.

The consolidation of information services would also be useful to those already in the services. Much as the "one-stop shopping" approach to government job training and placement services has improved access, a similar approach to military benefit programs could be taken. Although programs are managed by a variety of different offices and agencies, one website or publication that refers servicemembers to the relevant contact person or agency would be useful.

Finally, expanding the role of the services' career counselors could also support the dissemination of information about military benefit programs and could help to discourage servicemembers from seeking separation. The detailers we interviewed noted that they do not have the time or resources to contact or track servicemembers who choose to separate. If the services' career counselors were able to conduct something similar to a private-sector exit interview before a

95. Lucent's "Benefit Answers" website is a prime example of how this information can be organized. See benefitanswers.web.lucent.com.

96. Reference [46] provides one good summary, but this is unlikely to be available to new military recruits.

servicemember's separation (or even counsel the individual before the separation decision), useful information about the reasons for seeking separation and the characteristics of those separating potentially could be obtained.

Ultimately, changes in the military's incentive pay and benefit offerings alone are unlikely to completely solve the military's recruiting and retention problems. But they may represent a meaningful step in the right direction.

Appendix: Attrition and reenlistment survey

To assess the role of private-sector opportunities in the attrition and reenlistment decisions of Sailors, we conducted an informal 23-question survey, which was distributed at the Navy Executive Panel on Attrition summit held in Millington, Tennessee, November 20-21, 2000 (see table 1 for sample information).

Table 7. Summary of survey data

Survey statistics	Attrition portion	EAOS portion
Number of respondents	42	42
Number reporting job prior to separation	n/a	17
Number reporting job after separation	7	10

The survey asked for information on people who attrited from the Navy as well as those who left at their EAOS. Respondents included Fleet, Force Command Master Chiefs, and Career Counselors in attendance as well as people who later received e-mail versions of the survey from their commanders and/or senior enlisted personnel. Responses were returned onsite or via e-mail. In total, 42 persons responded to the survey.

The survey approach was viewed as a satisfactory alternative to conducting focus groups of the fleet—an undertaking that places a significant burden on military personnel. Because the survey was designed to elicit information similar to that available through conventional focus group techniques, little emphasis was placed on creating a representative sample survey. Rather, data are meant to convey qualitative information on the role of the private sector in individuals' separation decisions.

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